**UNIVERSITY FOR DEVELOPMENT STUDIES**

# A COMPARATIVE ANALYSIS OF THE OPERATIONAL STRATEGIES AND CHALLENGES OF NON GOVERNMENTAL ORGANISATION AND RURAL BANK MICROFINANCE INSTITUTIONS IN THE NORTHERN REGION OF GHANA

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# DECLARATION

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere:

……………………………………………. …………………………

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I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of thesis laid down by the University for Development Studies:

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## ABSTRACT

The purpose of this study was to do a comparative analysis of the operational strategies and challenges of the NGO MFI and the Rural Bank MFI. The study was conducted in three districts of the Northern region that is Tamale Metropolis, Savelugu-Nanton and Tolon-Kumbugu. This study used purposive and convenience sampling techniques to collect data from 144 respondents. Both qualitative and quantitative data were collected. Percentages, frequencies tables and graphs were used to present the data. The study revealed that, women appeared to be more involved with microfinance institutions than their male counterparts. Out of the total beneficiary respondents of the MFIs, 77.9% were females. The study further found that the procedures for accessing credit and recovering loans were common to all four MFIs in the study area. There were however few variations in the operational strategies of the MFIs in terms of the nominal interest rate, processing fees and upfront compulsory deposits charged on loans before disbursement as well as interest rates paid on clients′ deposits and the frequency of payments. The study also investigated constraints identified by management of the MFIs. Those that posed the severest challenges to their operations included poor credit appraisal of potential clients, poor or inadequate monitoring of loans, high transaction cost, poor regulatory environments and inadequate skill development and training of staff. The study recommends among others the establishment of MFIs credit bureaus, strict adherence to regular loan monitoring, lowering transaction cost by taking advantage of economies of scale in group based lending and peer monitoring systems, the need to collaborate and push for a national microfinance policy on regulation and the building of staff technical and skills development capacity.

## DEDICATION

I dedicate this work to Pearl Saba Maliwaka, Crystal Akwei Maliwaka, Isabella Efua Maliwaka, Labrine Braimah Maliwaka and Madam Benedicta Yeb for their support and encouragement and for being at my side.

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## LIST OF ACRONYMS

AfDB - African Development Bank

APR - Annual Percentage Rate

ASCAs - Accumulating Credit and Savings Association

ASSFIN - Association of Financial NGOs

ASSIP - Agriculture Service Sector Investment Project

BCBS - Basel Committee on Banking Supervision

BIS - Bank for International Settlement

BOG - Bank of Ghana

BSLEPS - Borimanga Small Loans and Empowerment Scheme

CBRDP - Community Based Rural Development Programme

CGAP - Consultative Group to Assist the Poor

CRM - Credit Risk Management

CUA - Credit Union Association

CUSO - Credit Union Service Organisation

FINSSP - Financial Sector Strategic Plan

FNGOs - Financial Non-Governmental Organization

FUSMED - Fund for Small and Medium Enterprise Development

GCSCA: - Ghana Cooperative Susu Collectors Association

GHAMFIN - Ghana Micro Finance Institution Network

GTZ - German Agency for Technical Cooperation

IDA - International Development Agency

IFAD - International Fund for Agricultural Development

MASLOC - Microfinance and Small Loans Centre

MCA - Millennium Challenge Account

MDAs - Ministries, Departments and Agencies

MDGs - Millennium Development Goals

MFI - Micro Finance Institution

MFIs - Micro Finance Institutions

MIS - Management Information System

MMDAs - Metropolitan, Municipal and District Assembles

MSME - Micro, Small and Medium Enterprises

NBFI -Non Bank Financial Institution

NGO - Non Governmental Organization

NGOs -Non Governmental Organisations

OIN -Opportunity International Network

PEED -Private Enterprise and Export Development

PHC -Population and Housing Census

PNDC - Provisional National Defence Council

PNDCL -Provisional National Defence Council Law

RAIN -Regional Advisory Information and Network Systems

RCBs - Rural and Community Banks

REP - Rural Enterprise Project

RFSP - Rural Financial Service project

ROSCAs -Rotating Savings and Credit Associations

SAT - Sinapi Aba Trust

SIF -Social Investment Fund

SPEED -Support Programme for Enterprise Empowerment and Development

SPSS -Statistical Package for Social Sciences

SSA -Sub Sahara Africa

UNDP - United Nations Development Programme

# CHAPTER ONE

# INTRODUCTION

## 1.0 Background of the study

The credit market is of crucial importance for economic development of poor households. Thus, the poor need small loans to enable them to smooth their consumption and to improve their income. Microfinance and especially micro credit aims at filling this need through microfinance institutions (MFIs), which differ according to their type (NGOs, cooperatives, non-banking financial institutions, banks), their status (regulated or non-regulated), their activities (systems of savings and credit, direct credit institutions, development projects including credit), their methods (group lending, individual loans, dynamic incentives) and their sources of financing (resources from deposits or external financing). Since the 1997 World Microcredit Summit and again in 2005, the International Year for Microcredit, MFIs have been promoted as a relevant instrument of struggle against poverty in developing countries.

Microfinance, according to Otero (1999) is "the provision of financial services to low income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Microfinance institutions (MFIs) play a vital role in the economic development of many developing countries. They offer loans and/or technical assistance in business development to low-income community in developing countries (Hartungi, 2007). They have a variety of products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and other financial product or service that a commercial bank does not offer to low-income clients in the banking system (Hoque and Chisty, 2011). An MFI is usually not a part of the formal banking industry or government. It is usually referred to as a NGO (Non-Government Organization). Many microfinance institutions also provide social intermediation services such as training and education, organizational support, health and skills in line with their development objectives. In Sub-Saharan Africa microfinance institutions include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients, nongovernmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks (Lafourcade et al. 2005).

The microfinance sector has evolved and developed according to different patterns and growth paths in various countries and regions (Steel and Andah, 2003). Microfinance has gone through four (4) distinct phases worldwide: phase one is where the provision of subsidized credit by Governments started in the 1950s when it was assumed that the lack of money was the ultimate hindrance to the elimination of poverty; phase two involved the provision of micro credit mainly through NGOs to the poor in the 1960s and 1970s; phase three is where the formalization of microfinance institutions (MFIs) began in the 1990s; and finally phase four is where the commercialization of MFIs gained importance with the mainstreaming of microfinance and its institutions into the financial sector (MoFEP, 2008).

Since its birth in the 1970s, microfinance has endeavored to develop sustainable enterprises and its innovations have been replicated from country to country, each time with renewed enthusiasm and innovation leading to international best practices that have benefited and guided the practice of microfinance-credit (Kiweu, 2009; Rhyne, 2001a; Labie, 2001). Given the ongoing developments in microfinance, there is considerable interest for many MFIs in Africa to keep pace with the changing landscape in the industry. However, the microfinance industry in most African countries remains largely underdeveloped (Gupta, 2008). African MFIs have continuously faced many challenges including lack of proper regulatory environment and lack of funds. Despite the series of financial sector reforms that the African countries have undertaken since the 1980s, financial systems still exhibit substantial degrees of inefficiencies in their savings mobilization and allocation of resources into productive activities (Senbet and Otchere, 2006). Operating and financial costs are high, and on average, revenues remain lower than in other global regions. Efficiency in terms of cost per borrower is lowest for African MFIs.

Despite the success of microfinance initiatives in numerous countries worldwide, a significant percentage of the micro-enterprise market has not been reached due to funding problems. The potential market size and funding gap reveals a need in excess of donor funding available for growth in portfolio and expansion of microfinance activities. To exploit this opportunity, as well as serve a large number of poor households, microfinance institutions will need an alternative source of funding. While donations have made an enormous contribution to microfinance development, attempts to scale up funding from this traditional source have been an uphill task. It is limited in amount and unavailable for many institutions. The constant challenges that confront practitioners/MFIs every day include how to finance the many microfinance programmes on the ground, how to finance eminent growth and achieve mass outreach and how to respond to competitive pressures on funding and customer demands for loans. With this predicament, the future course for microfinance is at a crossroad (Kiweu, 2009).

The concept of microfinance is not new in Ghana. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence also suggests that the first credit union in Ghana was established in Northern Ghana in 1955 by Canadian Catholic missionaries. Susu, which is one of the current microfinance methodologies, is thought to have originated in Nigeria and spread to Ghana in the early 1900s. Over the years, governments have undertaken various financial sector policies and programmes that have influenced the context for development of informal (microfinance) sector activities.

Risk management is the process of controlling the likelihood and potential severity of an adverse event: it is about systematically identifying, measuring, limiting, and monitoring risks faced by an institution (Fernando, 2008). Risk management is important simply because risk…pervades finance as gravity pervades physics and to survive and prosper in financial markets, participants must manage risk in ways that increase their wealth. (Von-Pischke 1991). Risk management strategies attempt to address risk ex ante.

An MFI may adopt certain elements of risk management although it may not have a comprehensive risk management system. Comprehensive risk management includes practices designed to limit risk associated with individual product lines and systematic, quantitative methods to identify, monitor, and control aggregate risks across a financial institution's activities and products. A comprehensive approach to risk management reduces the risk of loss, builds credibility in the marketplace, and creates new opportunities for growth (GTZ 2000). Because effective risk management ensures institutional sustainability and facilitates growth, it has significant implications for MFIs with a social mission to serve an increasing number of poor households. With the increasing level of maturity in the industry, many microfinance stakeholders seem to realize more now, than was the case about 10 years ago, that risk management is at the heart of the microfinance industry as it is in the broader banking industry. If an MFI is keen to continue its operations, it must take risk management seriously and put in place systematic measures for the purpose. However, it appears that comprehensive risk management has not yet become the norm in the microfinance industry of most countries.

### 1.1 Statement of the Problem

At the turn of the 21st century, microfinance institutions worldwide have reaped the goodwill of the industry's potential which had been built up over the last three decades of the 20$^{th}$ century. Indeed, microfinance serves the un-bankable, bringing credit, savings and other essential financial services within the reach of millions of people who are poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. The features that distinguish microfinance from other forms of formal and semi-formal financial products are; smallness of loans advanced, and savings collected, near absence of assets–based collateral and simplicity of operations (Bauman, 2001).

Microfinance institutions, also have a dual mission, which Markowski (2002) classifies as social mission and commercial mission. The social mission is to provide financial services to large numbers of low-income persons to improve their welfare and the commercial mission is to provide those financial services in a financially viable manner. Institutions found within the microfinance industry can be classified into four general categories: informal financial service providers such as moneylenders and ROSCAs; member-owned organisations such as credit unions and self-help groups; Non-governmental organisations; and formal financial institutions such as rural banks and non-bank financial institutions (Nugroho and Miles, 2009; Helms, 2006). Wenner (2002) also identified three stages in the MFI development: subsidy dependent, operationally efficient, and profitability. According to the IMF (2005) the MFIs that have become self-sustainable tend to be larger and more efficient. They also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds.

Globally, MFIs received a substantial share of both government and development partners' planning and budgeting (Annim, 2009). Relying on data from 2005 to 2007 there was a potential annual increase of 55 percent in outstanding portfolios of development finance institutions to microfinance institutions worldwide (Consultative Group to Assist the Poor, 2008). Subsequently, the number of borrowers across the globe increased on average by 23 percent (Microbanking Bulletin, 2008). In sub-

Saharan Africa (SSA), as at 2007, Ghana was ranked the highest recipient (about US$186m) of development partner's donor funding into microfinance (CGAP, 2008). For MFIs to fulfil their dual mission, it will depend largely on their capacity to adopt innovative strategies to make them operationally efficient and sustainable. As traditional banks are venturing into microfinance services provision, as number of players in the microfinance industry is increasing, as there are a myriad of challenges confronting the microfinance industry, and as there is increasing complexity in demand for microfinance services among clients, efficient operational strategies are very crucial particularly in developing countries.

In developing economies like that of Ghana where poverty is a major problem, it is argued that among others, absence of access to credit is presumed to be the cause for the failure of the poor to come out of poverty (Singh 2009). Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging (Von Pischke, 1991). In fact, the gap is not aroused merely because of shortage of loan-able fund to the poor rather it arises because it is costly for the formal financial institutions to lend to the poor. Lending to the poor involves high transaction cost and risks associated with information asymmetries and moral hazards (Stiglitz and Weis, 1981).

MFIs were established to make up for the shortfall in the financing of the entrepreneurial poor and their small businesses, thus awakening the entrepreneurial spirit at the micro-level, which is critical to the sustainability of growth in emerging economies such as Ghana's.

Despite the existence of MFIs since the 1970s, the poverty level of many rural people especially rural women who have benefited from microfinance especially rural women seems not to have improved especially after the end of projects. For example, while acknowledging the role micro-credit can play in helping to reduce poverty, Hulme and Mosley (1996) concluded from their research on micro-credit that most contemporary schemes are less effective than they might be. A study by Kotir and Obeng-Odoom (2009) in the Upper West Region of Ghana revealed a modest impact on household productivity, welfare and rural community development although they found that beneficiaries of micro-credit diverted a significant portion of such loans into house hold consumption. Ledgerwood (1998) contends that poorly designed microfinance activities can make things worse by disrupting informal markets that have reliably provided financial services to the poor households over the past couple of centuries, albeit at a high cost.

Various studies of the Ghanaian microfinance sector have identified a number of constraints which include: lack of access to on-lending funds, poor MFI staff skills, inappropriate financial technologies and inadequate operational strategies, poor management information systems, lack of impact assessment indicators, performance standards and codes of conduct to measure the performance of MFIs, lack of conflict resolution mechanisms, whereby many MFIs collapse due to conflicts among founders (Eschborn, 2002).

According to Fernando (2008), risk is an integral part of financial intermediation. Hence, risk management must be at the heart of finance. However, it is disturbing to note that systematic risk management is still not as widespread as it should be in the microfinance industry (Fernando, 2008). Except for a few flagship microfinance institutions (MFIs), which constitute the core of the industry, most MFIs do not pay adequate attention to systematic risk management. The microfinance industry has grown rapidly during the last decade in breadth, depth, and scope of outreach. The rapid growth seems to continue, given the massive unserved and underserved market. The growth of the industry has changed the risk profile of MFIs. Yet many MFIs seem to continue to seek growth without much attention to attendant risks. Surprisingly, many MFIs appear to neglect even the basic credit risk management which helped MFIs achieve high growth rates historically.



According to Aboagye and Otieku (2010), an issue of concern is the fact that a number of Rural bank MFIs have failed overtime. They reported that the number of Rural Bank MFIs that have been licensed in Ghana has increased over time but in spite of the steady increase in the cumulative totals, 23 Rural Community Banks (RCBs) have been closed down for not doing well, reducing the number in business as at June 2007 to 122 out of a total of 145 that had been licensed although as at April 2016 the situation has improved with a total number of licensed Rural Community Banks increasing to 140. Reporting on the causes of the failure of RCBs in Ghana, an internal central bank report, Bank of Ghana (2001), identified the causes of failure as, management incompetence; fraud and embezzlement; negligent or ineffective boards of directors; improper accounting records; non-compliance with regulations in granting insiders credit; persistent operational losses; poor loan recovery and corruption, poor deposit mobilization; use of unqualified staff; non-submission of prudential returns; no earning assets and non-performing credit portfolios.

It is interesting that this list of causes of failure does not include the capital-asset ratio, which stands at 10 percent for all banks including RCBs, higher than the Basel Capital

Accord recommends. Rather, it would appear failure is due to non-functioning of systems and structures that were put in place to govern the running of the RCBs.

According to Asiama and Osei (2007), despite decades of public provision and direction of provision of microcredit, policy orientation, and the entry of new players, the supply of microcredit is still inadequate. They identified some of the challenges which NGO MFIs face that impinge on their ability to perform to include; undercapitalization, inefficient management and regulatory and supervisory loopholes.

Microfinance practitioners from both the non-profit and commercial spheres face new challenges as they operate in increasingly commercial and competitive environments. Competition represents a current or future challenge for all microfinance institutions, whether for-profit or non-profit, well established or only recently founded. As more and different types of players enter the microfinance market, such as Rural banks and NGOs, these providers must come up with new ways of leveraging their experience and competitive advantage. The research is not only seeking to identify the challenges these MFIs are currently facing in the markets, but also the operational strategies such as their target customers, lending methodology, lending volume, loan recovery, loan monitoring, savings mobilization, etc, they have developed in dealing with competition and challenges in their own markets.

Moreover, poverty remains a matter of growing concern in many developing countries of the world. Today, as other continents continue to register sustainable economic growth and development, Africa is not only lagging but is trapped in a vicious circle of borrowing and donor dependency syndrome which some critics point out as one of the causes practically sabotaging real development. A key focus of microfinance is to respond to the demand for borrowing to support self-employment and small enterprise growth to alleviate poverty. Microfinance institutions are therefore indispensable in the economic development of the country and as such it is pertinent to identify their operational strategies and challenges taking into consideration the similarities and differences that are likely to exist between the two types of MFIs so that the right remedies are prescribed to make them sustainable. It is against this background that this research was undertaken to assess the operational strategies and challenges of the two types of MFIs in the Northern Region namely the NGO MFI and Rural bank MFI. The results from the study will therefore be relevant in designing programmes/projects and adopting strategies to encourage innovation, competitiveness and sustainability of microfinance institutions.

## 1.2 Research questions

The main research question posed for investigation is what are the operational strategies and challenges of the two categories of MFIs namely NGO MFI and Rural bank MFI in the Northern Region of Ghana? This main research question is addressed by pursuing the following specific questions:

1. What are the nature and target customers of the MFIs?
2. What are the operational strategies of the NGO MFI and the Rural Bank MFI?
3. What is the perception of clients about the operational strategies of the MFIs?
4. What are the major constraints of the MFIs?

## 1.3 Objectives of the study

### 1.3.1General objectives

The overall objective of this study is to do a comparative analysis of the operational strategies and challenges of NGO MFI and Rural Bank MFI in the Northern Region.

### 1.3.2 Specific objectives

The specific objectives of the study are:

1. To determine the nature and target customers of the MFIs.
2. To compare the operational strategies of rural bank MFI and NGO MFI.
3. To determine client perception about the operational strategies of the MFIs.
4. To identify constraints to the operations of the MFIs.

## 1.4 Importance of the study

According to following Quaraishi, (2007), the goals of MF institutions include but not limited to the provision of diversified, dependable and timely financial services to the economically active poor; mobilizing savings for financial intermediation; creating employment opportunities etc. With the expansion of the microfinance sector, the number of microfinance institutions (MFIs) has increased rapidly, and borrowers are offered a range of lending alternatives. However, the sector's expansion comes with growing pains, and if the proper systems are not in place, lending institutions may not be fully informed about the credit-worthiness of potential clients. Such a situation of information asymmetry and competition between MFIs can lead to adverse selection and moral hazard. Ultimately the result is the decreased performance of MFIs and the over-indebtedness of clients. These challenges have become especially problematic in various regions of the global microfinance sector even leading to violent debtor uprisings in some cases.

The problem being investigated is so crucial and timely especially following the desire of successive Ghanaian governments to alleviate poverty especially in the three northern regions. The findings of this study therefore will go a long way in influencing policies geared towards efficient operations of MFIs considering their strategic importance to the socio-economic development of their catchment areas. This again, it is expected, will help improve the socio-economic well-being of many Ghanaians, who live in rural areas and are mostly engaged in farming, fishing, trading and cottage industries with little access to commercial banks.

Furthermore, given the unprecedented proliferation of MFIs in every nook and cranny of the country, a research into the operational and managerial challenges is deemed very timely and crucial to the survival and growth of the MFIs. This is because the findings of this study will bring to the fore the challenges inherent in the MF industry and by so doing, equipping both existing and potential entrants with the requisite risk management skills and tools to mitigate these challenges. The study will generally add to the existing knowledge on the subject matter and may also serve as a source of reference for future studies on the subject matter.

Again, given that almost all African countries share similar business environment and characteristics (especially sub-Saharan Africa) the findings of this study can be equally used and built upon by academics, students and researchers on the continent.

### 1.5 Scope and limitations of the Study

The focus of this study is on the operational and managerial challenges of Ghanaian MFIs. MFIs for this study will be limited to only four MFIs two NGO MFIs and two Rural Bank MFIs operating the Tamale Metropolis and/or suburbs. Thus, for this study, the geographical scope is the Northern Region of Ghana. Tackling poverty is especially difficult in the North, and even small changes can have a noticeable impact. Across the country, Ghana's robust economy has contributed to considerably improving the well-being of its people, with the proportion of Ghanaians living in poverty falling from 52 per cent in 1991–92 to 29 per cent in 2005–06, according to estimates by the Ghana Statistical Service (Harsch, 2008). Ghana is thus on track to meet the poverty-reduction target of the Millennium Development Goals (MDGs) adopted by world leaders in 2000. But Ghana's North has largely been excluded from that broader trend. The incidence of poverty in the Northern Region declined only slightly over the same period, from 63 per cent to 52 per cent. In the Upper West Region, it remained static, at 88 per cent, while in the Upper East Region it increased, from 67 per cent to 70 per cent.

*According to UNDP's* Ghana Human Development Report 2007, these three regions "harbour the poorest of the poor," (Harsch, 2008). While Ghana — unlike many other countries in sub-Saharan Africa — have made some notable progress on some of the MDGs, that process has been very uneven within the country. Segments of the population have been left behind in other parts of Ghana as well, especially in the large urban centres in the south. Yet the worst indicators are concentrated in the north. It is therefore a very relevant and strategic place to study the challenges of MFIs in the

Northern Region of Ghana since the outcome of this study can potentially help MFIs perform better and by extension, alleviate poverty levels in the North.

The anticipated limitations will include the lack or inadequate information from the respondents. Non-participation could also be a limitation in the sense that the respondents will feel uncomfortable in giving information and therefore limiting the generalization of the results thereafter obtained. Because of the above, this survey cannot be directly generalized to include all MFIs in Ghana. However, the researcher believes that the findings will reflect to a high extent, an opinion of all Ghanaian MFIs since the Tamale Metropolis is the hub of trade and commercial activities in the Northern parts of Ghana.



### 1.6 Organization of the Study

The study is organized into five chapters. Chapter one of the study covers the introduction. It highlights briefly the background, statement of the problem, objectives, justification, scope, the limitations and the organization of the study. Chapter two deals with review of literature related to the study. It entails applied and theoretical exposition on the challenges of MFIs and the development of a conceptual framework which will aid in the attainment of the study's objectives. Chapter three, deals with the methodology used to gather the research data in the study area. Chapter four covers the analysis of data. It gives a descriptive report of the study as well as the analysis on the information gathered in chapter three (3) from the questionnaires and interviews administered. The last chapter deals with the summary, conclusion and recommendations of the study. These recommendations will try to provide answers and or suggestions on the challenges identified in the course of the research.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Definitions of Key Concepts of the Study

### 2.1.1Non-Governmental organizations (NGOs)

Just as with civil society the definition of NGO is contested. NGOs are variously described as autonomous, non-profit-making, self-governing and campaigning organizations with a focus on the well-being of others. They have been characterized as organizations whose stated purpose is the promotion of environmental and/or social goals rather than the achievement or protection of economic power in the market place or political power through the electoral process (Bendell, 2000). The United Nations (2003), describe an NGO as any non-profit, voluntary citizens' group which is organized on a local, national or international level. In a similar vein, Edwards (2000) defines NGOs as a subset of civic organization, defined by the fact that they are formally registered with government, receive a significant proportion of their income from voluntary contributions (usually alongside grants from government), and are governed by a board of trustees rather than the elected representatives of a constituency.

### 2.1.2 Definition of Rural Financial Services

According to Athmer (2008), in order to investigate rural financial services, it is important to define what is included when considering ‘rural’ financial services. While figures on rural versus urban populations are being monitored throughout the world, it remains problematic to identify a clear definition of what constitutes a rural area that can be used uniformly across countries (Athmer, 2008).

According to Athmer (2008), another important issue when discussing rural financial services is which financial services are included. The definition of rural finance as developed by Nagarajan and Meyer (2005) provides a useful guideline. According to the authors, the provision of financial services to a heterogeneous, rural, farm and non-farm population at all income levels through a variety of formal, informal, and semiformal institutional arrangements and diverse types of products and services, such as loans, deposits, insurance, and remittances. Figure 2.1 puts rural finance in perspective. It shows that Microfinance is only a small component of Rural Finance; Microfinance Institutions provide financial services in rural areas and provide financial services specifically for agricultural activities.

### 2.1.3 Micro Finance

Microfinance has become a popular and fashionable word in financial and development circles. According to CGAP (2010) microfinance is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as ―microfinance institutions (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly. In addition to this definition, Azevedo (2007) adds another dimension - the rationale for the provision of microfinance services. The term microfinance refers to the provision of financial services for low-income households and micro entrepreneurs (both urban and rural) for productive purposes.

Ledgerwood (1999) provides a more comprehensive definition of institutional microfinance. According to him, the term microfinance refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however, some microfinance organizations provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence and training in financial literacy and management capabilities among members of a group.

From the above definitions of micro finance, microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a developmental tool. Microfinance activities usually involve small loans typically for working capital; informal appraisal of borrowers and investments; collateral substitutes, such as group guarantees and compulsory savings, access to repeat and larger loans, based on repayment performance, streamlined loan disbursement and monitoring and secure savings products.

### 2.1.4 Microcredit

Microcredit differs significantly from traditional commercial lending in that loans have smaller size and shorter-term maturities and rely on character rather than collateral as a guarantee. Two caveats must be borne in mind with regard to the definition of microfinance (Rock and Otero, 1996). Although the central feature of microfinance is its clientele – microenterprises – this does not mean that these clients borrow only for business purposes. Given the informal nature of most microenterprises, where household and business activities often overlap, it is common for such borrowers to seek loans for consumption as well as production. The secret to microcredit is finding ways to make credit decisions and to manage the risk of lending to customers who have neither a verifiable salary nor assets that can be easily valued or seized.

The second caveat concerns the nature of microenterprise. The lower bound of this concept is here defined as any economic activity where the owner risks his or her own resources to produce a product or generate an income; this defines as enterprises many activities that some would not consider worthy of the term. The upper bound of the definition is usually arbitrarily set by the number of employees the enterprise supports or its total assets. Employment is somewhat easier to measure, and five and ten are the most commonly used employment cutoffs. But microfinance clients at any one point in time may include businesses larger than this, since at least some longstanding customers tend to develop and grow beyond this size. See Table 2.1 for details.

**Table 2.1 Distinctive Features of Microfinance**

| **AREA** | **TRADITIONAL FINANCE** | **MICROFINANCE** |
|---|---|---|
| Lending Methodology | (1) Based on collateral (Traditional Collateral)<br>(2) More documentation<br>(3) Less labor intensive<br>(4) Loans are usually serviced monthly, quarterly, or yearly | (1) Collateral substitutes and Alternative collateral<br>(2) Less documentation<br>(3) More labor intensive<br>(4) Loans are usually serviced/repaid in weekly or bi-monthly installments |
| Loan portfolio | (1) Fewer loans<br>(2) Loans larger in size<br>(3) Collateralized<br>(4) Longer maturity<br>(5) More stable delinquency | (1) More loans<br>(2) Loans smaller in size<br>(3) Use collateral substitutes and alternative collateral<br>(4) Shorter maturity<br>(5) More volatile delinquency |
| Institutional Structure and Governance (of regulated financial institutions) | (1) profit-maximizing institutional and individual shareholders<br>(2) creation by spin-off | (1) Mainly non-profit institutional shareholders<br>(2) Creation by conversion from NGO or formation of new entity<br>(3) Decentralized set of small units in areas with weak infrastructure |

Sources: Adopted from Rock and Otero (1996)

### 2.1.5 Micro Finance Institutions

MFIs provide financial services to low-income clients who are not served by mainstream financial service providers. Mersland and Strom (2009) reported that the organizational structure and management in combination with the degree of supervision by the government determines the institutional formality of MFIs. According to CGAP (2006), low-income people predominantly obtain their financial services through informal arrangements. Arrangements may be made amongst friends and family, or with moneylenders, saving collectors, and shop keepers. Financial cooperatives are member-based organizations, owned and controlled by their members. The focus of this study is on Financial NGOs and Rural bank MFIs.

#### *A) Rural Banks*

Rural Banks are unit banks which are owned and managed by residents in a community. They are registered under the Company's Code and are licensed by the Bank of Ghana to engage in the business of banking. Being unit banks, they are not allowed to open branches but are permitted to open agencies within their catchments areas for the purpose of mobilizing deposits. The basic functions of Rural Banks are the mobilization of savings and the extension of credit to deserving customers in their areas of operation. It is also the belief of the Central Bank that through their financial intermediation roles, Rural Banks will act as catalysts for economic development in rural Ghana. A lot of progress has been made since the first rural bank was established in 1976.

Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchments area, and their minimum capital requirement is significantly lower. In pursuance of the provisions of the Non-Bank Financial Institutions Act, 2008 (Act 774) and the Banking Act, 2004 (Act 673) as amended by Act 738, the Bank of Ghana has issued guidelines for all entities operating in the microfinance sub-sector.

***B) Financial NGOs***

Financial NGOs (FNGOs) are incorporated as companies limited by guarantee under the Companies Code in Ghana. They are the semi-formal system, in that they are formally registered, but are not licensed by the Bank of Ghana. FNGOs are mostly mission-driven and are especially active in poor communities. Their poverty reduction focus leads most of them to provide multiple services including microcredit, which remains their main business, to poor clients though mostly on a limited scale. They are not allowed to take deposits from clients and hence have to use external funds for microcredit. These funds are mostly from donors, social investors and government programmes. Some of them however operate the susu scheme which allows individuals to save small amounts on a daily or weekly basis.

FNGOs continue to play a significant role in the development of microfinance in Ghana. According to GHAMFIN there are about 50 FNGOs mostly small in size and having less than 1000 clients with a high majority being women. They operate in rural and peri-urban areas. In addition to microfinance services, they are involved in training, education and health. They cannot readily raise funds from the financial market because of their inability to provide acceptable collateral or guarantees and to meet other requirements requested by the financial institutions in the market.

### 2.1.6 Risk and Risk Management

According to Valsamakis (1999), risk is defined as a deviation from the expected value. It implies the presence of uncertainty, where there may be uncertainty as to the occurrence of an event producing a loss, and uncertainty on the outcome of the event, where the degree of risk is interpreted with reference to the degree of variability and not with reference to the frequency with which the event will occur or to the probability that it will display a particular outcome.

Risk management is the process of controlling the likelihood and potential severity of an adverse event: it is about systematically identifying, measuring, limiting, and monitoring risks faced by an institution (Fernando, 2008). Risk management is important simply because risk…pervades finance as gravity pervades physics and to survive and prosper in financial markets, participants must manage risk in ways that increase their wealth (Von-Pischke, 1991). Risk management strategies attempt to address risk ex ante.

An MFI may adopt certain elements of risk management although it may not have a comprehensive risk management system. According to the Federal Reserve Bank (quoted in GTZ 2000), comprehensive risk management includes practices designed to limit risk associated with individual product lines and systematic, quantitative methods to identify, monitor, and control aggregate risks across a financial institution's activities and products. A comprehensive approach to risk management reduces the risk of loss, builds credibility in the marketplace, and creates new opportunities for growth (GTZ 2000). Because effective risk management ensures institutional sustainability and facilitates growth, it has significant implications for MFIs with a social mission to serve an increasing number of poor households.

According to Fernando (2008), with the increasing level of maturity in the industry, many microfinance stakeholders seem to realize more now, than was the case about 10 years ago, that risk management is at the heart of the microfinance industry as it is in the broader banking industry. If an MFI is keen to continue its operations, it must take risk management seriously and put in place systematic measures for the purpose. However, it appears that comprehensive risk management has not yet become the norm in the microfinance industry of most countries.

### 2.1.7Operational Risk

The Basel Committee on Banking Supervision (BCBS) defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events (BIS, 2011). This definition considers the underlying causes of operational risk. It also seeks to identify why a loss happened and breaks down the causes into people, processes, systems and external factors. However, under new regulatory rules, each financial institution will be allowed to adopt its own definition of operational risk.

According to Eccles et al (2001), operational risk is the newest area of focus in the financial services and financial institutions have trouble quantifying it because of its broad nature. However, Walsh (2003) states that the management of operational risk is not a new practice. What is new is the emergence of operational risk as a comprehensive process to manage the increased complexity in financial institutions. Marshall (2000) also defines operational risk as the risk associated with human error, systems failures, and inadequate controls and procedures in information systems that will result in an unexpected loss.

Operational risk is the uncertainty that comes with daily business. All business processes contribute to operational risk, including back office and customer facing functions. It is the risk of loss arising from the potential that inadequate information system, technology failures, breaches in internal controls or fraud may result in unexpected losses or reputational problems. In all, operational risk exists in all products and business activities. McCuaig (2005) states that Operational risk management means driving down the value and frequency on unintentional losses resulting from inadequate or failed internal processes, failures by people, technology or external events. It can therefore be said that the chief aim of operational risk management is to find out the extent of the financial institution's operational risk exposure, to understand what drives it, to allocate capital against it and identify trends internally and externally that would help predicting it.

### 2.1.8 Sources of Operational Risk

According to Walsh (2003), the complex nature of operational risk is due to the dynamic environment in which the risk occurs. The various sources of operational risk identified are as follows:

***People***

This is the most dynamic of all the sources of operational risk. Though people are the most valuable resource in every organization, research shows that people have contributed immensely to operational breakdowns. This can occur due to violation of health and safety rules, worker claims compensation, inadequate training, fraud, management and human error.

***Process***

This can arise at any stage in the value chain. Unexpected volumes of new business can be a source of operational risk. Numerous products have failed because the institution could not cope with the demands of the product. In their zeal to get into the market, key processing requirements are overlooked, and the consequences and remedial action have been very costly in terms of time, money and goodwill.

***Systems***

Growing dependence in recent times of financial institutions on IT systems is a key source of operational risk. Data corruption problems; whether accidental or deliberate are regular sources of costly operational mistakes. One frightening issue is that of system failures which cause serious losses for the institution.

***Business Strategy***

This may be driven by a new focus on a market segment, merger, change in management or cost-cutting projects. Major operational risk incidents usually occur during a period of change in business. This could result in a change in staffing levels or volumes of transactions.

***Business Environment***

This is where businesses have the least control over. Business environment risk can arise from unanticipated legislative changes. The most striking example is the effects of the terrorist attack in New York on September 11, 2001.

## 2.2 Historical Background of Microfinance

A better appreciation of the concept of microfinance requires delving into the historical background. According to Otero (1999), microfinance is relatively a new term in the field of development, first coming to prominence in the 1970s. From the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. These often resulted in high loan default, high losses and the inability to reach poor rural households (Robinson, 2001). The 1980s saw the emerging point of microfinance with MFIs such as the Grameen Bank showing that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). The 1990s also saw accelerated growth in the number of microfinance institutions reaching a commercial scale. With the growth in microfinance institutions, attention changed from just the provision of loans to the poor, to the provision of other financial services such as savings and pensions when it became clear that the poor had a demand for these other services (Robinson, 2001).



### 2.2.1 The Impact of Microfinance on Poverty

Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is a significant difference between increasing income and reducing poverty. He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends on what the poor do with this money. Sometimes, it is gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to sustain a specified level of well-being by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

Hulme and Mosley (1996) argue that well-designed programmes can improve the incomes of the poor and move them out of poverty. They show that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and when the very poor are encouraged to save, their vulnerability is reduced and their poverty situation improves. A loan facility is more beneficial to the "middle and upper poor" and not the poorest of the poor. According to them, there is clear evidence that the impact of a loan on a borrower's income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the "middle and upper poor". However, they also showed that when MFIs such as the Grameen Bank provided credit to very poor households, those households were able to raise their incomes and their assets.

Johnson and Rogaly (1997) also refer to how savings and credit schemes were able to meet the needs of the very poor. They state that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries' overall vulnerability. According to Dichter (1999), microfinance is a tool for poverty reduction. While arguing that the record of MFIs in microfinance is generally well below expectation, he concedes that some positive impacts do take place. From a study of a number of MFIs, he states that consumption smoothing effects, signs of redistribution of wealth and greater influence of the individual within the household are the most common impact of MFI programmes.

Mayoux (2001) states that while microfinance has much potential, the main effects on poverty have been that, credit is making a significant contribution to increasing incomes of the better-off poor, including women. People with access to savings, credit and other financial services, are more resilient and better able to cope with challenges of everyday life. Microfinance services contribute to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

## 2.3 Challenges and Constraints in Microfinance

MFIs have more than just one mission. Markowski (2002, p.117) states they have a dual mission: a social mission "to provide financial services to large numbers of low-income persons to improve their welfare", and a commercial mission "to provide those financial services in a financially viable manner". Simanowitz with Walter (2002) argue that microfinance is a compromise between this social mission and commercial mission. As there is more emphasis on financial and institutional performance, opportunities for maximising poverty impact and depth of outreach have been compromised. They call for a balancing of social and financial/commercial objectives because the current focus on financial objectives means fewer of those most in need of microfinance services are being targeted. To do this they argue that MFIs must innovate and design services that maintain high standards of financial performance, but which set new standards in poverty impact (2002).

Markowski (2002) states that CGAP estimates that only about 5% of MFIs worldwide are financially sustainable while the IMF (2005) puts the figure at only 1%, so this is a huge issue for the microfinance sector. To achieve financial sustainability according to Havers (1996), an MFI must cover the cost of funds, operating costs, loan write-offs and inflation with the income it receives from fees and interest. According to the IMF (2005) the MFIs that have become self-sustainable tend to be larger and more efficient. They also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (IMF, 2005). This is where the compromise exists. To achieve such sustainability, while at the same time reaching those most in need, microfinance programmes need to be managed in a rigorous and professional manner, subsidises must be removed, and tight credit control procedures and follow-up on defaulters needs to be in place (Havers, 1996). There is no doubt that sustainability is also very important from clients' perspectives, as they place a high value on continued access to credit, and if they feel that the MFI will not survive it reduces their incentive to repay loans (Von Pischke, 1999). Appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to sustainability (Havers, 1996). If these measures to achieve sustainability are put in place, while focusing on the needs of the poorest, then both the social and financial objectives can be achieved. In simple terms, the trade-off between financial and social objectives can be balanced if the MFI is well managed and understands the market and its clients (Morduch, 2004) and by combining both objectives, financial returns can potentially be increased in the long run (Pawlak and Matul, 2004). Simanowitz (2002) refers to this as an MFI's double bottom line. As stated by Morduch (2004) achieving profitability and strong social performance is the ultimate promise of microfinance. It is not impossible, but neither is it easy and this is the challenge facing all MFIs. Therefore, the current challenges facing MFIs are threefold, it concerns, not only, financial sustainability, but also outreach - extending the services to greater numbers of poor, and depth of outreach - trying to reach the poorest members of society.

Filpo (2006) found the impediments to the success of MFIs in developing countries to relate to scalability, sustainability, outreach and the impact of the various MFI initiatives; and indicated that these impediments can be overcome through the adoption of innovative strategies to maximize outreach and sustainability.

Generally, it is recognized that supplying rural microfinance is more difficult than supplying urban microfinance. Difficulties relating to the development of the financial sector in rural areas are listed in a paper on challenges in rural finance by Miller (2005). Miller (2005) describes 12 constraints which are classified into four groups: vulnerability constraints, operational constraints, capacity constraints and political and regulatory constraints.

### I. Vulnerability constraints

***Systemic Risk –*** rural incomes, especially among the agriculturalists, are highly susceptible to similar risks at the same time. Weather is the most uncontrollable and often devastating risk but disease and plagues are similarly important. Failures in agriculture affect not only the farmer households and the production and marketing linkages but also the rural non-farm economies that revolve around and depend upon those income flows. Even so, the most problematic is farm credit because of higher risk.

***Market Risk –*** especially in developing countries, there both cyclical and seasonal price fluctuations of agricultural commodities, not only due to local production variation but also affected by "outside forces" such as political price and exchange controls, subsidies and globalization.

***Credit Risk –*** collateral, especially mortgage, is a missing element in most rural finance, hence increasing the risk of the lender. Similarly, collateral substitutes may be costly in both financial terms as well as social stigma risk terms as can be the case with peer lending. Other support services and information networks such as credit bureaus are often not available to help lower the risk. For term lending, a financial gap risk between sources and uses of funds poses another risk constraint(ibid.).

**ii. Operational constraints**

***Investment Returns*** **–** rural capital revolves slowly, with often one or, less frequently, two crops per year. For investment capital the returns are even slower and in spite of that are often faced with very low profit margins. Hence the margins for error are much less than for example in commerce or most microfinance, which tend to have high returns per unit of funds invested and higher profit levels.

***Low Investment and Assets*** **–** the relative poverty in rural areas causes common crises to become major crises due to the lack of asset "cushion." Any loss of expected income through sickness or production losses cause significant impact. In compensation, traditional networks and production risk minimization become more important than profit maximization. The small asset base also reduces savings and borrowing capacity, thus constraining economies of scale in the use or provision of services.

***Geographical Dispersion*** – rural areas are characterized by low density of population and high dispersion, which is coupled with a relatively low market potential, with a relatively low market potential make access and communication difficult and hence high costs of operation for both production and marketing and for access and delivery of services.

**iii. Capacity Constraints**

***Infrastructural Capacity*** **–** poor communication, pitiful roads, unequipped schools and missing social and health services decrease efficiency of operations, discourage new services and increase the outflow of the most talented and resourceful persons and a reluctance of educated families to live in rural communities.

***Technical Capacity and Training*** – a relatively unskilled rural population reduces opportunity for ready access and adaptation to new technologies and employment. The lack of capacity affects not only the productivity and competitiveness in the changing marketplace but also the ability to find trained staff for service provision.

***Social Exclusion*** – cultural, linguistic, gender, racial, religious and educational constraints affect market and financial integration. Such barriers reduce production and marketing efficiencies. These are required to compete effectively in the marketplace and thereby generate income and levels of assets needed to reduce poverty and vulnerability. HIV/AIDS makes this even worse in many countries.

***Institutional Capacity*** – while there is an abundance of organizations in rural areas, the relative capacity is lacking. This includes management and technical capacity, size/economies of scale, competitive viability, economic integration and often risk-bearing capacity. Even when urban based institutions have the capacity to reach into rural areas, there is little incentive to do so. An exception to the capacity constraint is at the micro level where the social fabric is able strong and is sufficient for the level of operations undertaken and may also form linkages with intermediaries of higher institutional capacity(ibid.).

**iv. Political and regulatory constraints**

***Political and Social Interference*** – loans can be forgiven, savings can be withheld, interest rates can be capped, mortgages can be rendered useless and payments can be suspended due to decree. Even danger is not uncommon; hence uncertainty can become an insurmountable hurdle.

***Regulatory*** – regulations and/or a lack of enforcement of them hinder rural as well as urban environments. Land tenure regulations, banking laws, exchange rate manipulation and tax considerations are examples of such constraints that destabilize and/or hinder viability of business and financial operations in rural areas (ibid.).

Iganiga (2008) on the other hand identified six challenges of micro finance and they are**:**

***High Operating Cost:*** Small Units of services pose the challenges of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities.

***Repayment Problem:*** Loan delinquency is a major threat to institutional sustainability; it is the deadly *"virus"* which afflicts MFIs. Delinquency demoralizes staff and deprives beneficiaries of valuable services. Delinquency is a symptom of poor leadership.

***Inadequate Experienced Credit Staff:***

Micro financing is more than dispensing loans. To be viable, MFIs require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFIs are on their first jobs and majority are school leavers. This deficiency limits expansion and institutional performance.

***Lack of Re-financing Facilities:*** Some MFIs are not–for–profit entities with donors as sources of funds. Grants are hardly adequate to meaningfully scale-up out-reach. Emerging development issues such as HIV/AIDs and environmental degradation are attracting attention of donor agencies. Non-profit status of MFIs inhibits effective engagement with financial institutions like the universal banks.

***Client Apathy and Drop-out***: Improper client services and delivery strategies could lead to client drop-out. Most pro-poor MFIs lose up to 20% of their client base annually. High dropout rate increases cost as old clients who require little training are lost.

***Internal Control Challenge***: Large transactions and informal operational approach pose serious internal control challenge. Operational procedures could be breached at disbursement and collection points. High cash transaction which is a feature of micro financing is a source of temptation for fraudulent practices (ibid.).

Also Das et-al (2011) examined the strategies to address the challenges of Microfinance institution. They found that challenges encountered by MFIs include the inaccessibility of micro finance services to the poor, the capital inadequacy of MFIs, demand and supply gap in provision of micro credit and micro saving. They also discovered that high transaction cost, the non-availability of documentary evidence and problem of re-payment tracking.

According to Ikeanyibe (2010), one of the challenges of MFIs has to do with human resource management. He studied the impact of human resource in sustaining MFIs. In his research, he found that managing human resource efficiently and effectively is prerequisite for the sustained MFIs. He stated that inappropriate human resource may serve as major havoc to the sustenance of MFIs and argued that staff of MFIs is fundamentally relevant toward the success or otherwise of MFIs.

According to Arun (2005), one of the issue that has a significant concerned in MFIs are the regulations that steer the conduct and activities of microfinance. According to his finding on regulating and development the case of microfinance indicate that regulatory framework is one of the issues that need to be addressed to have sustained

MFIs. He argued that MFIs need to be regulated by considering the nature and characteristics of the institutions not using universal regulation of the financial system.

## 2.4 Challenges Facing the Ghanaian Microfinance Sector

According to BOG (2007), the specific challenges facing the industry are;

***a) Institutional Framework***

The stakeholders in the sub-sector play various roles which are expected to be complementary. Due to the lack of defined areas of operation, the roles and responsibilities of stakeholders currently overlap in some cases. The overlap is also due partly to the fact that organizational and institutional hierarchy and reporting relationships among all the stakeholders are not clearly defined. Commercial banks could play an increasing role. There is the need therefore to clearly define relationships and roles to enhance effective implementation and delivery of services.

***b) Capacity Enhancement and Funding***

The various stakeholders in the sector often organize training programmes and activities with the view to upgrading capacity in the industry. This notwithstanding, the staffing and competency levels are still below what is desired. For example, the capacity of some key stakeholders and institutions including MASLOC, GHAMFIN, MFIs, relevant Ministries, and technical service providers etc. needs to be enhanced for microfinance operations. Also, the current microfinance Apex bodies lack an adequate cadre of in-house trainers and/or facilitators as well as in-house monitoring and evaluation units to continually measure progress of their activities consistently over time. Funding for the sub-sector has been from three sources - the institutions themselves, government, and development partners. In the first place, available funds have not been adequate, and secondly, the different sources come with their associated conditions, and thus distort the market in some cases. There is a need for a central microfinance fund to which MFIs can apply for on-lending and/or capacity building support, building on experience such as the case of the Training Fund under the Rural Financial Services Project.

***c) Credit Delivery and Management***

Current strategies for credit delivery are not adequately diversified or efficient, and therefore are unable to fully meet the varying demands of the market and different categories of end-users. There is no framework for categorizing and upgrading some of the emerging microfinance institutions in the semi-formal and informal sub-sectors in accordance with their operational capacities and capabilities. The objective of microfinance is to provide resources for the poor. Nonetheless, there is yet to be adequate, reliable and acceptable methods for classifying various poverty levels to enhance the categorization of potential and actual MFI clients and other forms of support that may be more appropriate for some groups.

***d) Data/Information and Dissemination***

Generally, there is lack of information on microfinance institutions, their operations and clients in the country. Approaches to and methodology for data and information gathering at the national level are not uniform, making it difficult to centrally monitor progress of the sub-sector. There is a lack of well-defined reporting system by both the government and development partners with regards to their interventions, and hence there is inadequate database for decision-making and planning. At the institutional level, data/information gathering, and dissemination are weak within and between institutions. Also, the lack of common benchmarks, methods for measuring and information sharing further inhibits the performance of the sub-sector. Thus, lack of adequate and reliable information on outreach in terms of its depth and breadth remains one of the most daunting in the sub-sector. This lack of information has affected targeting of clients and ultimate poverty reduction.

**e) *Regulation and Supervision***

There needs to be dialogue on the formulation, implementation and review of regulatory and supervisory policies and procedures to ensure consistency and efficient approaches to regulation across different types of microfinance institutions. There is a need to balance the need to facilitate the evolution of a variety of institutions providing microfinance products and services, with the need to protect depositors' funds, provide adequate information and protection to consumers, and coordinate expansion and regulation of different segments of the market. Microfinance institutions in this category often face rigid regulatory and supervisory systems in many countries, which often inhibit their product innovativeness, outreach and ultimately the performance of the institutions. Finally, there is a lack of well specified guidelines for operations among apex bodies namely, CUA, GCSCA, ASSFIN and the Cooperative Council. This leads to uncoordinated activities and invariably hampers the performance and outreach of their member institutions.

***f) Coordination***

Currently, there is no formal body that is responsible for coordinating all activities associated with microfinance, nor is there a forum for dialogue among stakeholders on policy and programme issues. As a result, there is fragmentation, duplication and inadequate collaboration between and among MDAs, MMDAs, development partners, service providers, practitioners and end users. In this regard, the role of GHAMFIN as an umbrella body for microfinance apex institutions, as well as their member institutions, needs to be strengthened to ensure the transfer of best practices and setting of standards for the industry. The existing institutional structure does not include all practitioners and service providers and needs to be addressed.

## 2.5 Risk Management Measures and Strategies

According to Aboagye and Otieku (2010), two studies that have summarized the factors that form the basis of improved financial performance of MFIs are Zaman (2004) and Yaron *et al.* (1998). Zaman discussed the tremendous growth in intermediation by four MFIs in Bangladesh, while Yaron *et al.* studied three Asian MFIs widely considered to have been successful in providing financial services at unprecedented levels to millions of rural people. According to Aboagye and Otieku, (2010), factors cited for growth are visionary leadership; a high degree of management autonomy in formulating operational policies; proper staff recruitment and motivational systems; innovation, low-cost delivery systems; flexibility; close monitoring of loan performance; development of domestic savings accounts to reduce or eliminate the need for donor funds; control over administrative expenses and adequate management information systems that facilitate effective planning; and adequate internal control systems.

According to Fernando (2008), based on an examination of current trends in microfinance risk management, one general observation stands out. Most MFIs pay more attention to crisis management than to risk management, and the attention to risk management is highly uneven across and within MFIs. Given this, MFIs must make concerted efforts to put in place comprehensive risk management systems appropriate to their institutions. Although institutional variations make general recommendations less relevant, it is possible to outline a number of general principles that MFIs need to follow in developing risk management systems and procedures.

Risk management must be an integral part of the institutional culture, whether an institution is an NGO, a nonbank financial institution, a specialized MFI, or a cooperative. Otherwise, many employees would be prone to take risk management lightly. It is important to inculcate the realization that it would be far wise and more prudent to manage risk than to cope with risk, and that risk management is a collective and continuous activity which engages everyone in an organization in varying degrees. However, risk management should essentially be a top-down activity: it should begin at the top of the organization and systematically go down to embrace all other layers of the organization.

According to Fernando (2008), the chief executives and board of directors of MFIs must explicitly recognize the potential impact of cognitive biases and organizational pressures on risks. These two factors could easily lead to an executive over optimism in their organizations. Such over optimism could, in turn, result in the underestimation of potential risk, particularly of new initiatives and growth strategies.

Risk management should not be seen as something that must be put in place merely to meet the regulatory and supervisory requirements of financial authorities (Fernando, 2008). Risk management needs to be seen more as a critically important way to ensure financial soundness, operational efficiency, growth, and stability of the institution to achieve its mission. Thus, those MFIs that are not subject to prudential regulation must also have an appropriate risk management system and procedures. It is important to recognize that risk management is not the management of financial ratios based on balance sheets and income statements.

The primary responsibility for putting in place an effective risk management system and procedures must rest with the board of directors and the chief executive officer of an MFI; the board and the chief executive, in addition to others, must also share implementation responsibilities. The direct link between governance and risk management must also be recognized.

According to Iganiga (2008), microfinance institutions and rural bank MFIs desiring to be sustainable, delivering appropriate services to a large number of clients, and doing so with excellent repayment performance, must pay attention to the following success imperatives;

***Group Delivery Methodology:*** A common feature of microfinance is group delivery methodology. Members are assisted and encouraged to organize into self-selecting credit groups. Membership of such groups ranged between five and sixty. Groups could be formed along commonality of business activities or location of residence or business. Group methodology reduces cost of lending. Several visits to individuals' homes for disbursement and collections are reduced to few visits to group meetings. Also, group lending aids credit discipline and good repayment performance. Group members exert tremendous peer pressure on each other to perform.

***Efficient Management Information System (MIS):*** Accurate and timely information is needed for planning and monitoring. Automated MIS is most preferred as it is fast, accurate and very efficient. It enhances staff productivity as it relieves credit offices of manual processing thereby freeing their time to recruit more clients. Where MIS is manual, it should be simple and transparent.

***Intensive Monitoring:*** Intensive monitoring is the effective response to repayment problem and internal control challenge. Effective monitoring strategy consists of a detail and clear operational procedures and monitoring. The author advocates for monitoring staff who are area and divisional managers who are solely charged with the responsibility of ensuring that breaches of procedures are prevented, detected, corrected, and where necessary promptly sanctioned, and 5 monitoring activities should be extended beyond branch operations to activities at the credit group level.

***Involvement of Clients:*** Service users should not be seen as faceless customers of formal financial institutions who are identified by their account numbers, clients of MFIs should be seen as partners. They are constantly engaged. Some MFIs provide institutional structures for clients' participation in the governance and management of the institutions. MFIs should have Branch Councils which are made up of leaders of groups supervised by a Branch Office. Each council should have an elected leader while the Branch Manager serves as secretary. The council meets quarterly to address operations of the branch.

***Charge Real or Market Rates:*** Since beneficiaries of microfinance are poor, rates of interest should be low or subsidized. However, MFIs have accepted the view that real or market rates be charged to ensure sustainability. The cost of reaching the poor with financial services is enormous. Also, subsidized interest rates connote charity which diminishes the feeling of obligation for repayment. When faced with choices of low interest rates by a transient institution or real rates by a sustainable institution, client would favour the latter (Akintola, 2005)

***Develop Innovative Products:*** MFIs must recognize that (i) credit needs of clients are diverse and (ii) there are always emerging needs. Credit products should be developed to meet these needs. Clients should be constantly engaged to determine the trends of their requirements. Tested strategies include market research, client exit and satisfaction surveys, and impact monitoring and assessment exercises (Olaikan, 2005).

***Intensive Use of Microfin:*** A microfin is a powerful automated planning in microfinance. Planning is a key function in any performing MFI. The planning department is charged with task of formulating business plans and short term plans as quarterly and annual plans. The department periodically reviews performance of key indicators as out-reach (Client-base); profitability and portfolio quality.

**2.6 Overview of MFIs in Ghana**

Currently, there are three broad types of microfinance institutions operating in Ghana. These include:

- Formal suppliers of microfinance (i.e. rural and community banks, savings and loans companies, commercial banks)
- Semi-formal suppliers of microfinance (i.e. credit unions, financial nongovernmental organizations (FNGOs), and cooperatives;
- Informal suppliers of microfinance (e.g. susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals).

In terms of the regulatory framework, rural and community banks are currently regulated under the Banking Act 2004 (Act 673), while the Savings and Loans Companies are currently regulated under the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDCL 328). On the other hand, the regulatory framework for credit unions is still being developed to reflect their dual nature as cooperatives and financial institutions. The rest of the players such as FNGOs, ROSCAS, and ASCAs do not have explicit legal and regulatory frameworks and are largely unregulated.

In terms of current policy programmes that affect the Microfinance sub-sector, a number of on-going projects can be cited. These include - the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP).



### 2.6.1 The Role of Bank of Ghana and other Government Programs

The Bank of Ghana's history of promoting the financing of Micro, Small and Medium Enterprises (MSME) began from the Credit Guarantee for Small Borrowers scheme in 1969 that was administered through the Development Finance Department of the Bank. The Bank was further instrumental in administering the IDA-financed Fund for Small and Medium Enterprise Development (FUSMED) Project, and with the Private Enterprise and Export Development (PEED) Project, as well as other direct projects that were ended after BOG decided to focus on its core areas of operation. Currently, BoG is actively participating in the Rural Financial Services Project (RFSP). This project was supported by donors such as the International Development Agency (IDA) of the World Bank, the International Fund for Agricultural Development (IFAD), and the African Development Bank (AfDB). It is aimed at broadening and deepening financial intermediation in rural areas through measures such as; Capacity Building of the Informal Financial Sector, Capacity Building of Rural and Community Banks, and the establishment of an Apex Bank for Rural Banks in Ghana.



### 2.7 The concept of strategy

A widely accepted definition is offered by Johnson et al. (2005), who define strategy as the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations'. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization's external environment, its resources and its objectives (in meeting the expectations of its stakeholders).

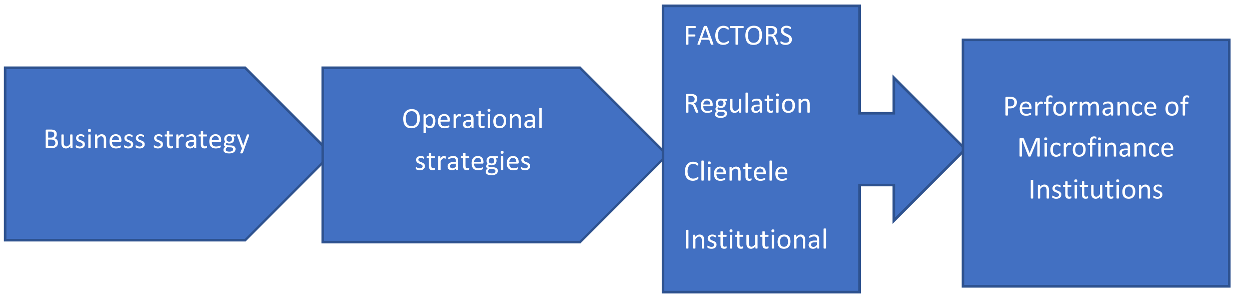
A business strategy is often thought of as a plan or set of intentions that will set the long-term direction of the actions that are needed to ensure future organizational success. However, no matter how grand the plan, or how noble the intention, an organization's business strategy can only become a meaningful reality, in practice, if it is operationally enacted. An organization's operations are strategically important precisely because most organizational activity comprises the day-to-day activities within the operations function. It is the myriad of daily actions of operations, when considered in their totality that constitute the organization's long-term strategic direction.

The relationship between an organization's business strategy and its operational strategy is a key determinant of its ability to achieve long-term success or even survival since the former defines the latter. Organizational success is only likely to result if short-term operations activities are consistent with long-term strategic intentions and contribute to competitive advantage. Thus, operational strategy is an integral part of an organization's business strategy.

An appropriate operational strategy is essential to an organization not only as this will determine the extent to which its business strategy can be implemented, but also as its operations can be a source of competitive advantage as Hayes et al. (2005) point out, effective operational strategies need to be consistent and contribute to competitive advantage. Slack et al. (2004: p.67) argue that an 'operational strategy concerns the pattern of strategic decisions and actions which set the role, objectives and activities of operations'. Their use of the term 'pattern' implies a consistency in strategic decisions and actions over time. Thompson and Strickland (2003) say that a firm can employ defensive strategies, offensive strategies and process innovation strategies.

A conceptual framework is a model that presents and explains the relationship between various variables. In a conceptual framework there are three types of variables: dependent, independent and intervening variables. In this study, as conceptualized by the author (2012), the performance of MFIs is dependent on the overall business strategy of the MFIs which defines the day-to-day activities which forms the operational strategies such as outreach, deposit mobilisation, loan monitoring and recovery strategies used by the MFIs. The operational strategies employed are influenced by some intervening factors which can be grouped into internal and external factors. The internal or institutional factors include skills of staff, transaction cost, credit appraisal and support systems. The external factors can be categorized into financial regulation and the nature of MFIs clients such as level of education, delinquency or payment default risks etc. Figure 2.2 below shows the relationship of business strategy, operational strategy and performance of MFIs.

**Figure 2.2 Conceptual framework of the study**



# CHAPTER THREE

# METHODOLOGY

## 3.0 Introduction

This chapter focuses on the various methods employed in the research. It discusses the profiles of the MFIs in the study, sources of data, method of data collection and analysis, sampling procedures, the study area and limitation of the study.

## 3.1 Profile of the MFIs in the Study

### 3.1.1 Maata-N-Tudu Association

Maata-N-Tudu Association is a non-political, non-religious, non-ethnic, non-governmental women's membership organization. It was registered in September 1993 to bring together women's groups of Northern, Upper East, and Upper West Regions to improve their situation. The Association was formed by women's groups who participated in the erstwhile CUSO Women in Development Project to continue and/or sustain the flow of services they received under that project.

***Vision of Maata-N-Tudu Association***

The vision of Maata-N-Tudu Association is to improve the situation of members and their families by assisting them to unite and work together through meetings, mutual self-help, training and savings and loans programmes.

***Mission Statement of Maata-N-Tudu Association***

Maata-N-Tudu is an Association mainly of rural women from Northern Ghana working to meet their need for food, clothing, shelter, education, and health. This is done through:

- Meetings to promote unity within member groups and between all groups, to promote peer learning and to improve their problem solving capacity.
- Contributions, regular savings and raising external support to sustain their work.
- Train and strengthen the capacity of members to provide support to each other and other needy persons in their communities especially in emergency situations of ill health, drought, floods etc.
- Loans to members to improve and expand their income generating activities to improve their income levels.
- Maintaining a secretariat and staff to help with planning, co-ordination of activities, advice financial management, etc.

***Objectives of Maata-N-Tudu Association;***

- To encourage the organization and registration of women groups for their mutual benefit.
- To assist groups mobilize founds from members and to promote savings habit among group members.
- To acquire and introduce new ideas and technology to group members to enhance the performance of their activities especially their economic tasks.

- To provide training in areas that will promote co-operative enterprise, technology application and in areas that will generally assist in developing the potential of group members to undertake viable enterprises.
- To gather information and based on this information promote activities that will enhance the development of member groups and women in Northern Ghana in general.
- Without prejudice to the generality of the immediately preceding clauses, the Maata-N-Tudu Association in furtherance of its objectives shall engage in the following:
    - Provide a forum for the discussion of rural development policies and activities as they affect women.
    - Provide literacy training in English as well as Numeracy to make them functionally literate.
    - Educate rural women on socio-cultural issues that affect their progress i.e. teenage pregnancy, health of mothers and children, obnoxious traditional practices, drug abuse, and HIV/AIDS.

***Operational Area***

The Association operational area stretch to cover sixteen districts in the three Northern Regions of Ghana. These are Tolon/Kumbungu, Savelugu/Nanton, East Mamprusi, Bunkpurugu-Yunyoo and Tamale Metropolis, Bolgatanga municipal, Bongo, Kassena-Nankana and Bawku West districts of the Upper East Region and Wa East, Wa Municipal, Wa West and Nadowli in the Upper West Region.

***Clientele Base***

It is presently made up of 328 groups, comprising 210 groups in northern region, 53 in Upper East region and 65 in Upper West region. The total membership is 8932 with 4933 members being active loan beneficiaries.

Maata-N-Tudu Association's beneficiaries or clients are the rural and urban poor women and their children in the three northern regions of Ghana.

### 3.1.2 Profile of SINAPI ABA Trust Micro-Credit Scheme

Sinapi Aba Trust (SAT) is an autonomous private, Christian and a non- profit Non-Governmental Organization (NGO) which was established and duly registered in May 30th, 1994 under the company's code 1963 (Act 179) as a company limited by guarantee to support the poorest of the economically active poor to enhance their lives through microfinance and basic business training. SAT is a member of the Opportunity International Network (OIN), an international Christian NGO involved in micro enterprise development in over 40 countries, with its headquarters in Chicago, USA. SAT operates within the vision and policy framework of OIN.

***SAT's Vision***

SAT seek to become an institution dedicated to the building of a nation under the Almighty God where the strong help the weak and all people have the dignity of providing for themselves, their families, their church and their community".

***SAT's Mission***

SAT's mission is to serve as a Mustard Seed through which opportunities for enterprise development and income generation are given to the economically disadvantaged in society.

***SAT's Objectives***

- To enable SAT to achieve its noble mission, the following key objectives have been established:
- To provide financial services or credit needs to small and micro business ventures;
- To contribute positively to poverty alleviation through micro-enterprise stimulation and job creation for increased income among the poor;
- To fill the vacuum created by the formal sector Commercial Banks and finance companies in administering credit and financial services to small and micro enterprise.
- To provide the require Business Management Training for micro-entrepreneurs to enhance their gradual growth from the micro level to the macro level.

***SAT's Core Values***

SAT's core values governing its operations are:

- ***Respect:*** Our respect for one another compels us to value fully and affirm the dignity and uniqueness of each client. This respect is also the foundation for our relationship with our client's communities and our relationship with others involved in our work – donors, creditors, colleagues and fellow members of the network.

- ***Commitment to the Poor and clients:*** We focus our energy and efforts on our clients, their families and their communities. Their business needs and expectations determine the services we provide, and their wellbeing inspires what we do.



SAT has put in place certain guidelines and procedures in its loan disbursement programme so as to get committed clients who wish to succeed in doing their small scale business. These conditions are as follows:

- Evidence of savings from the business for which the loan is sought;
- A guarantor within the locality or administrative region from which the loan is being sought;
- Two referees or witnesses who must be one of the following: a recognized church member, an Assembly member, a chief, a medical officer or a headmaster of a public school; and
- Participation in business orientation and training sessions (Sinapi Aba, 2009)

### 3.1.3 Profile of Bonzali Rural Bank

Bonzali Rural Bank Limited6 was originally called Kunbungu Rural Bank Limited. It was established in May 1990. It has its head office at Kumbungu, a town in the Tolon-Kumbungu district of the Northern Region of Ghana. It operates under the Banking Act 2004-67. Although the bank's operational area was initially within Kumbungu and its surroundings, the increasing demand for its services and products has led to the establishment of agencies in other communities/districts in the Northern Region, for example, the agencies of Tamale, Gushegu and Yendi. All these three agencies are in three respective administrative districts within the Northern Region. To reflect its new outreach, the bank changed its name from Kunbungu Rural Bank to Bonzali Rural Bank. Bonzali means keep small, small. The bank is thereby popularly called Bonzali among its customers and the public.



***Mission of Bonzali***

According to Bonzali, it has a social and commercial mission to its clients. Bonzali's social mission includes:

1. The provision of microfinance services to a large number of low income persons that will enable them to improve their welfare; and

2. To enhance the standard of living of the poor in Kumbungu and the Northern Region in general. Its commercial mission comprises;

3. The provision of first class banking services to community members and beyond; and

4. The mobilization of funds within the communities that Bonzali operates and to seek funds from its partners

***Focus and Target Group of Bonzali***

To realize its mission, Bonzali like the mainstream banks provides a comprehensive range of financial services to the public, particularly the rural poor, both to personal customers and to small-scale enterprises. Bonzali therefore has many women's groups in its areas of operation.

***Services and Products of Bonzali***

The banking services and products the bank offers to its clients include domestic banking, microfinance, money transfer (local and international), and mobile banking. In terms of its microfinance programmes, the "community bank methodology" is used while the women access the microfinance scheme in "credit cycles". Irrespective of the fact that Bonzali provides general banking services like any other mainstream bank, microfinance is one of its largest departments. This is a banking product whereby field officer meets some bank customers (market women) at their business centres to mobilize their savings and other banking products.

**3.1.4 Profile of Borimanga Rural Bank**

The Borimanga Rural Bank at Savelugu in the Savelugu/Nanton District of the Northern Region was established in 2004 through the initiative of the Regional Advisory, Information and Network Systems (RAINS), a Tamale-based non-governmental organization (NGO), and other stakeholders. The bank has over the years adopted a strategy of extensive deposit and share mobilization to give the bank the needed resources to undertake reliable, prudent and sustainable financial intermediation.

Being in an agricultural dominated community, the bank engages in agricultural financing that adds value to the rural producer without compromising its capacity to sustain the bank's lending operations and profitability. Other micro-credit lines disbursed by the bank include those of the Ministry of Fisheries that supports women in Diare and the Ministry of Women and Children that serve women at some deprived communities in the district.

The bank launched the Borimanga Small Loans and Empowerment Scheme (BSLEPS) in 2006 targeting mainly women who wanted to begin and expand small enterprises in trade, services and small scale production. The bank now reaches out to over 3,000 rural borrowers lending out GH¢355,600 in the process while maintaining an outstanding recovery rate and a very strong portfolio quality. The bank is constantly seeking new opportunities and partnerships with organizations, such as the United Nations Development Programme (UNDP), SPEED Ghana, an international NGO, and the Millennium Challenge Account (MCA), for both technical and financial support to its numerous clients.

### 3.2 Research Design

This study used the survey method to collect data from the key and relevant personnel of the four financial institutions and their customers. According to Uys and Basson (1991), the survey research is an empirical and logical investigation that involves the systematic and impartial collection of data from a sample of cases, as well as the statistical analysis of the findings. According to Burns and Grove (2001) a survey is a technique of data collection in which questionnaires (collected by mail or in person) are used to gather information about an identified population. It is used to collect data that can be collected through self-report. There is no manipulation of variables or an attempt to establish causality. This is supported by Seaman (1987) who mentioned that in a survey, standardized information is collected from subjects from a larger population of more than one hundred.

Using a survey research approach gives more control over the research process as this method is perceived as authoritative by people in general. Survey method is based most often on questionnaire; however, questionnaire is not the only data collection device for survey. Structured observations and structured interviews may be used as well (Saunders et al. 2000).

A descriptive survey according to Babbie (1990) and Gay (1992), is useful for investigating a variety of problems including assessment of attitudes, perceptions, opinions, conditions and procedure. Descriptive study is concerned with relationships and practices that exist, beliefs and processes that are on-going, effects that are being felt or trends that are developing (Best, 1970). Descriptive data are usually collected through questionnaires, interviews and observations. The descriptive survey design was considered by the researcher as the most appropriate for analysing the operational strategies and challenges of the different categories of MFIs that is the Rural Bank MFI and the NGO MFI

### 3.3 Types and sources of data

In order to achieve the objectives of this study, the research employed both primary and secondary data sources.

#### 3.3.1 Primary Data

Primary data provides first-hand information on any subject under study (Salant and Dillman, 1994). Primary data were mainly used to increase the understanding of the questions asked under the section on research questions. Primary data was collected through observation and interviews by the use of semi-structured questionnaires. Key informant interviews were also conducted with key personnel of the four financial institutions to obtain information on their operational strategies, criteria of selecting beneficiaries, interest rate charges on loans and other general information relevant to this research.

**a) Questionnaires**

The primary data used in this research was collected from a field survey conducted by the researcher. Interviews by the use of semi-structured questionnaires was the main method for collecting data. For personal characteristics and other personal information, semi structured questionnaires were administered by personal interview method to the beneficiaries. Information that was collected during the personal interviews was qualitative data comprising of personal demographic characteristics of the beneficiaries of the MFIs, main economic activities they were engaged in, the size of loans they received, interest rate charged, repayment terms and the constraints they faced in dealing with the MFIs.

**b) Key Informant interviews**

Key information that came up in the course of the interviews and observations with the key personal of the MFIs were recorded into notebooks. Information that was collected during the key informant interviews were related to the issues about the operational strategies of the MFIs such as lending methods, loan recovery strategies, interest rates, cost of loans to beneficiaries, the challenges and constraints to their operations.

### 3.3.2 Secondary Data

Secondary data according to Moore (2006) refers to processed information that is readily available to be utilized. The researcher used the secondary source of information because of its advantages. The main advantage of the secondary data was that it saved time and cost. It afforded the researcher the opportunity to collect high quality data which would not have been of the same quality if the researcher were to collect it in its primary form. Saunders et al (2007) quote Stewart and Kamins (1993) as stating that secondary data are likely to be of higher-quality than could be obtained by collecting empirical data. Secondary data were collected from sources such as the organization's website, newsletters, financial statements, articles, journals etc.



### 3.4 Study Population

A study population is that aggregation of elements from which the sample is selected (Earl 2002). A population is the aggregation of all cases that conform to some designated set of specification. Cooper and Sciendler (2001) defined population as the total collection of elements about which the researcher wishes to make some inferences. The population of this study was the entire staff of the four institutions and all their customers.

#### 3.4.1Target Population

The key personnel of the four institutions and customers who have benefited from the institutions formed the target population of the study.

### 3.5 Sample Size

Sampling is the process of selecting observations. To Babbie and Mouton (2006), it is appropriate for one to select a sample based on the researcher's knowledge of the population, its elements and your research aims. Karma (1990) collaborates the use of sample size by saying that a sample size should neither be too large nor small, it should be optimal and at the discretion of the researcher. Also, according to Miller (1991), a study based on representative sample is often better than the whole population saying the same thing. Thus, the sample size for the study is one hundred and forty-four (144) consisting of thirty-five (35) customers from each of the four MFIs and four (4) top level management one (1) from each MFI were interviewed.

### 3.5.1 Sampling Techniques

According to Potter (1996) there are two key criteria for sampling in qualitative research, i.e., access and relevance. The four institutions were chosen for this study mainly because of their contributions to fighting poverty and offering employment opportunities within the catchment areas. Thus, a purposive sampling technique was used to select the top level management since the goal of the study was to investigate the strategies and operational challenges facing the four institutions.

Subsequently a convenience sampling technique was employed in selecting the beneficiaries of the MFIs that is thirty-five (35) beneficiary respondents from each of the four MFIs. This involved selecting beneficiaries who could provide required information and who were more available to participate in the study. Convenience sampling enabled the researcher to complete many interviews cost effectively and quickly. Thus, a total of one hundred and forty-four (144) respondents consisting of one hundred and forty (140) beneficiaries of the MFIs and four (4) top level managers of the MFIs were sampled.

## 3.6 Data Collection Instruments

The researcher used structured questionnaire to obtain information relevant to the objectives of the survey from the clients of the MFIs. The survey questionnaire is adjudged to be the perfect method of gathering the data (Seaton, 1997). In this study, the questionnaire sought to assess the strategies as well as the operational challenges of the four financial institutions. In some cases, the questions were reframed to check the accuracy of the information.

A Likert scale (of 5point) was deployed since it was deemed to be an excellent means of measuring the attitude of respondents towards an attribute. According to (Myers, 1999), the Likert scale is user friendly and reduces uncertainty, confusion and misunderstanding. The advantage here was that it helped to reduce non-response by eliminating respondent fatigue (high response rate is very critical for every research because it makes it more credible. The relevance and importance of the Likert scale also lies in the unequivocal ordinality of response ratings.

The heads of the institutions were interviewed to gather information from them. The researcher. The researcher had to accurately note down the salient points of the discussion. The researcher also went online and reviewed relevant company document for further information.



### 3.6.1 Data Collection Procedure

Prior to the survey, the questionnaires were developed and pretested to ensure that the right information was captured in the actual data collection stage. The essence of the pretesting was to examine how the questionnaire was to be framed and to also identify any misunderstanding over terms and questions. According to Yin (2003), six empirical sources are available for case studies. In this study, two sources have been used namely documentation and interviews. Yin recommends using multiple sources of evidence (i.e., triangulation) when conducting case studies. The most important advantage of using multiple sources is the development of converging lines of inquiry. In other words, a finding that is based on several sources is stronger than one based on a single source.

In gathering the data, the researcher wrote to the management of the four institutions seeking permission to administer the questionnaires on their customers.

The main data collection method used in this study was the structured questionnaire. It was also important to find respondents who were most knowledgeable about the challenges confronting the four financial institutions and as such personnel of credit risk management (CRM) department, Internal Control Units of the institutions, and other relevant personnel so identified.



### 3.7 Method of Data Analysis

Analyzing and interpreting research data forms a key part of any research. Defining the analytical method is vital to any research strategy (Amaratunga et al, 2002). Different approaches can be used in investigating, categorizing, tabulating and or having a combination of the facts to deal with the research questions.

The research was mainly descriptive. It included describing, recording, analyzing and interpreting conditions that existed.  The data so collected was coded and translated to an SPSS (Statistical Package for Social Science). SPSS was selected for this purpose due to its versatile nature which offers the researcher the ability to perform a wide variety of statistical procedures (Voelkl and Gerber, 1999).   The data was then presented through frequency tables and charts. The data collected was analyzed in both descriptive and qualitative forms such as frequency tables, percentages and charts.  Raw data collected during the study was fully explained with comments, well defined and illustrated in graphic forms for clear understanding.

# CHAPTER FOUR

# DATA ANALYSIS AND PRESENTATION OF RESULTS

## 4.1 Nature and target Customers of Microfinance Institutions

To determine the nature and categories of MFIs clients the researcher examined the demographic characteristics of respondents in the study area. They included age, sex, marital status, educational level and the economic activities respondents are engaged in. The study finding shows that, majority of respondents were below 60 years and actively engaged in various economic activities thus targeted by the prospecting activities of MFIs. Also, women were found to be the major borrowers making up 77% of all the Microfinance Institutions borrowers while men accounted only 23%. Moreover, most respondents, 79% were married and because of the increased responsibility and concern for household welfare became customers of MFIs in order to source loans to better their income generating activities. Although majority of the respondents 71% had some form education, education was not a limiting factor to becoming a customer of MFIs. However due to the lack of higher education on the part of many of the respondents who were women, many are not able to secure jobs as a result; they engage themselves on self-employed economic activities which necessitate them to borrow from MFIs so that they can be able to run their businesses. The findings also suggest that trading and processing are the main economic activities engaged by most of the beneficiaries of MFIs in the study.

### 4.1.1 Name of Districts of the Study

The name of the districts of respondents sampled for the study is presented in Table 4.1.

**Table 4.1 Name of Districts of Respondents**

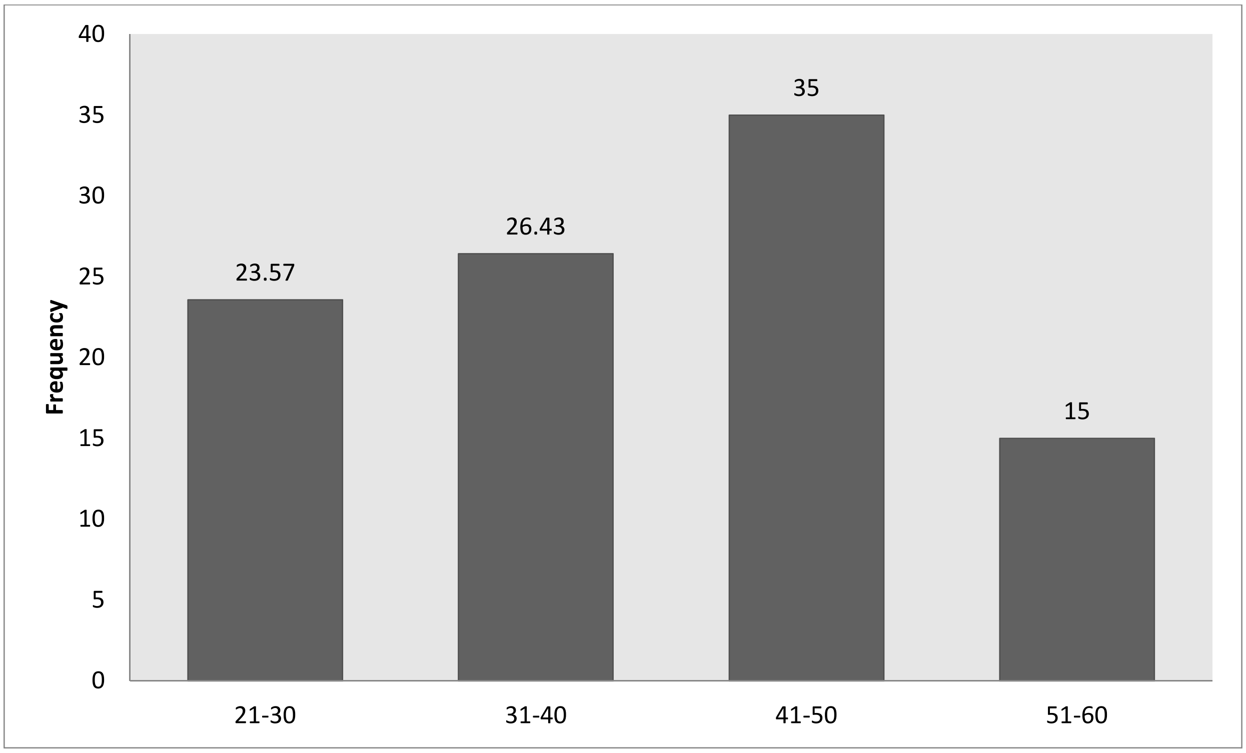
| Name of Districts | Frequency | Percent |
|---|---|---|
| Tamale Metropolis | 70 | 50 |
| Savelugu-Nanton | 35 | 25 |
| Tolon-Kumbungu | 35 | 25 |
| Total | 140 | 100 |

**Source: Field Survey, 2012.**

Table 4.1 reveals that among the 140 respondents interviewed, about of the respondents (70) representing 50% were from the Tamale Metropolis and a quarter each of the respondents were from Savelugu/Nanton and Tolon Kumbungu Districts respectively. Tamale Metropolis has the highest respondents since it is a metropolis and has two of the microfinance institutions operating in the Metropolis.

### 4.1.2 Age of Respondents

**Figure 4.1 Age of Respondents**




**Source: Field Survey, 2012.**

Figure 4.1 shows the age distribution of respondents. It reveals that among the 140 respondents interviewed, the majority (35%) were between the ages of 41 and 50 years. About 26.43% of the respondents were between the ages of 31 and 40 years whiles 23.57% those interviewed were between the ages of 22 and 30 years. It is evident from the study that majority of the respondents were below the compulsory retirement age of 60 years thus are actively engaged in various economic activities and as such were attracted to the prospecting activities of the Microfinance institutions.

It could also be attributed to the fact that this age group has several family responsibilities and obligations thus when the available funds are not enough, they resort to MFIs in order to fulfil their obligations in the family. These people are also well respected in the community and are well known to the leaders of the community and this minimizes the cases of defaulting and running away from the community. Thus, the MFIs concentrate on the mature people who may be permanent residents of the area and are well established in the area.

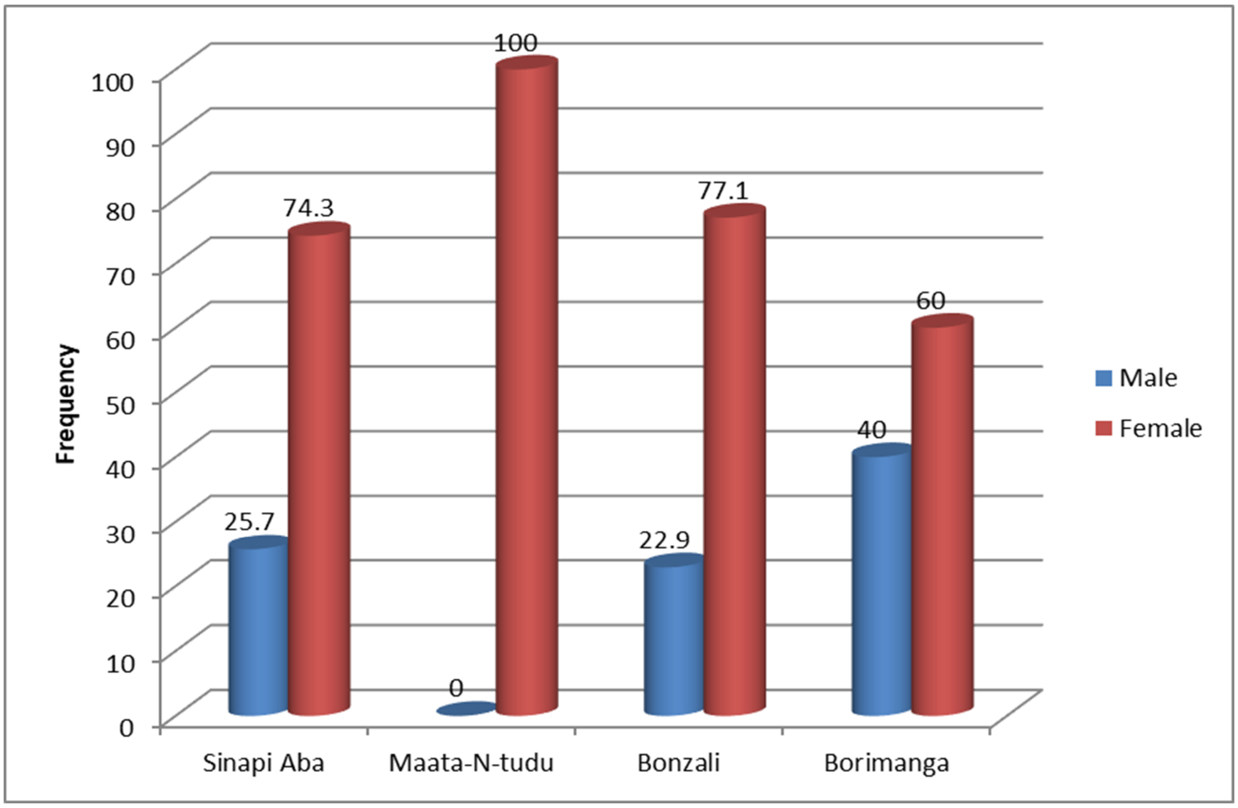
### 4.1.3 Sex of Respondents

Figure 4.2 shows the sex disaggregation of respondents. It revealed that among the 140 respondents interviewed, 109 of them were females representing 77.86% and 31 of them were males representing 22.14% as shown in Figure 4.1. The percentages of males and females involved with MFIs were found to be higher than that reported by GHAMFIN (2009) as cited in Adjei (2010) stating that in Ghana, 67 percent of clients of MFIs are women and consistent with the report of Armendariz and Roome (2008) which states that seven out of ten microfinance clients are women. Thus, women appeared to be more involved with Microfinance institutions than their Male counterparts. This suggest an indication of gender bias in the mobilization of savings and delivery of credit among the MFIs. The very reason for this could be the fact that women constituted a big fraction of the poorest groups of the population and they, in most cases, pursued independent economic activities. Another explanation was that the managers of MFIs perceived women to be reliable microfinance clients and found to be more discipline than men in making regular savings deposits and loan repayments. This finding agrees with Menon (2005) who states that women are at the forefront of the micro-credit movement and they use small loans to jumpstart a long chain of economic activity. Regarding loan repayment, Menon (2005) says that the women have enormous pride in their integrity and therefore pay quickly and reliably, not wanting to be seen as defaulters. And after repayment, they begin again, this time with a bigger loan and keep expanding their profit base until they do not need the loans any longer.

It was also of interest to find that although the three other MFIs extended their services to both men and women and did not discriminate between genders, Maata-N-Tudu one of the NGO MFIs in the study exclusively targeted and extended their services to only women clientele.



**Figure 4.2 Sex of Respondents**




**Source: Field Survey, 2012.**

### 4.1.4 Marital Status of Respondents

Marital status of respondents was explored for this study and presented in Table 4.2. Among the 140 respondents interviewed, an overwhelming majority (79.29%) are married, whiles very few (14.29%) of the respondents are single (never married), and 3.57% and 2.86 are divorcees and widows respectively.

Marriage increases concern for household welfare and the responsibilities involved caring for the family and is therefore likely to have a positive influence on participation in an MFI intervention, so it is therefore not surprising to have married respondents in the majority. The married persons were also found in the study to be more steady and faithful in loan repayment than the single persons who would default and run away from the area without paying.

**Table 4.2 Marital Status of Respondents**

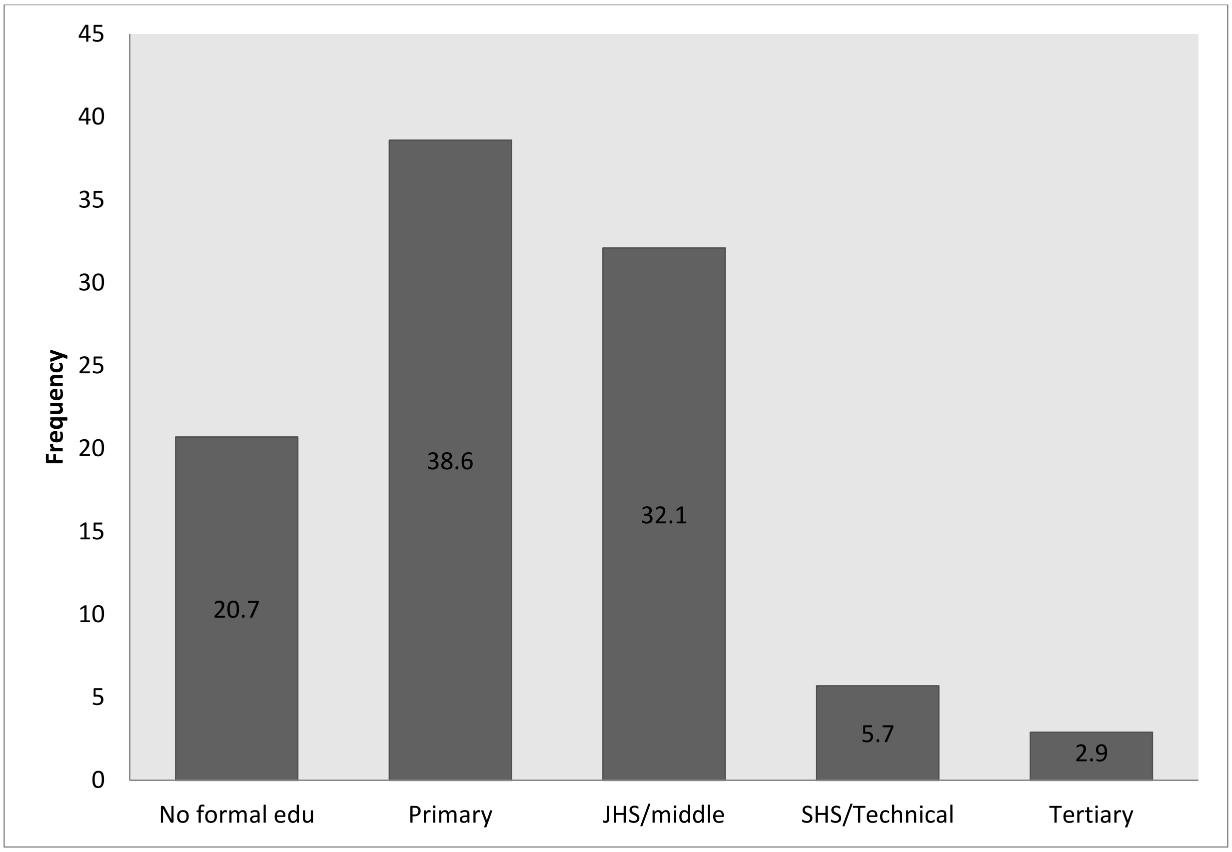
| Marital Status | Frequency | Percent |
|---|---|---|
| Married | 111 | 79.29 |
| Single | 20 | 14.29 |
| Divorced | 5 | 3.57 |
| Widowed | 4 | 2.86 |
| Total | 140 | 100 |

**Source: Field Survey, 2012**.

### 4.1.5 Educational Status of Respondents

Figure 4.3 shows the educational background of respondents. Among the 140 respondents interviewed only a few (20.7%) had no formal education at all, but most of the respondents had some form of formal education. The majority (70.7%) of the respondents had at least primary/basic level of education and a few of the respondents have gone through secondary and tertiary level of education. The findings suggest that although formal education may have its own advantages, but it is not a limiting factor in accessing loans and other related services from the MFIs.

**Figure 4.3 Educational Status of Respondents**

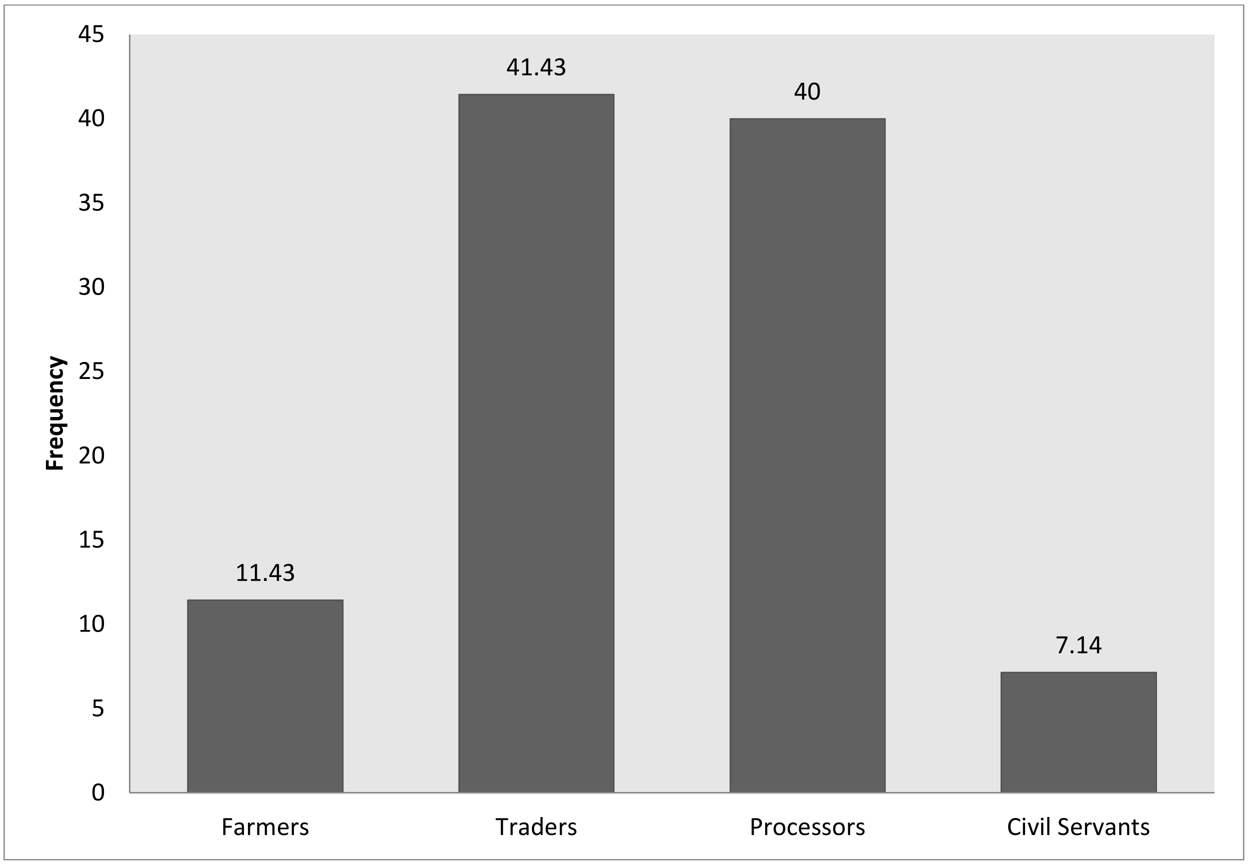



**Source: Field Survey, 2012.**

### 4.1.7 Economic Activity of Respondents.

Respondents were involved in various economic activities as shown in Figure 4.4. Out of the 140 respondents interviewed regarding their main occupation, 41.43% stated that they were engaged in trading, while 40% were engaged in processing, 11.43% were farmers, and 7.14% were civil servants. The findings suggest that trading (buying and selling) and value addition to raw materials through processing in the supply chain of goods and/or services are the main economic activities engaged by most of the beneficiaries of the MFIs in the study. In the case of the traders, respondents traded in a variety of goods such as smoked fish, grains (beans, rice, maize and groundnuts), cosmetics, hair products, provisions, jewellery and many other assorted consumer goods. Whiles the processors were engaged in the processing of paddy rice and shea butter as well as groundnut paste and oil extraction.

**Figure 4.4 Economic Activities of Respondents**




**Source: Field Survey, 2012.**

## 4.2 Operational Strategies of Rural Banks and NGO MFIs

This section presents the findings and discussion on the operational strategies of Rural Banks and NGOs Microfinance System among respondents. The financial institutions that respondents accessed credit from included Maata-n-Tudu, Sinapi Aba Trust, Bonzali Rural Bank and Borimanga. The study found similarities and variations in the various operational strategies of the NGO MFIs and the rural bank MFIs as represented by Table 4.3.

**Table 4.3 The operational strategies of NGO MFIs and Rural Bank MFIs**

| Operational Strategies | | NGO MFI | RURAL BANK MFI |
|---|---|---|---|
| **Similarities** | 1.Deposit mobilisation | 1. Use of Compulsory<br>2. Use of Agents to collect deposits | 1. Use of Compulsory<br>2. Use of Agents to collect deposits |
| | 2. Lending methodology | 3. Use of solidarity group guarantee as collateral | 3. Use of solidarity group guarantee as collateral |
| | 3. loan portfolio | 4. Loans were smaller in size (below GHC500)<br>5. Shorter maturity of loans | 4. Loans were smaller in size (below GHC500)<br>5. Shorter maturity of loans |
| | 4.Loan recovery | 6. preferred weekly loan repayment term<br>7. Labor intensive requires the use of Agents | 6. Preferred weekly loan repayment term<br>7. Labor intensive requires the use of Agents to |

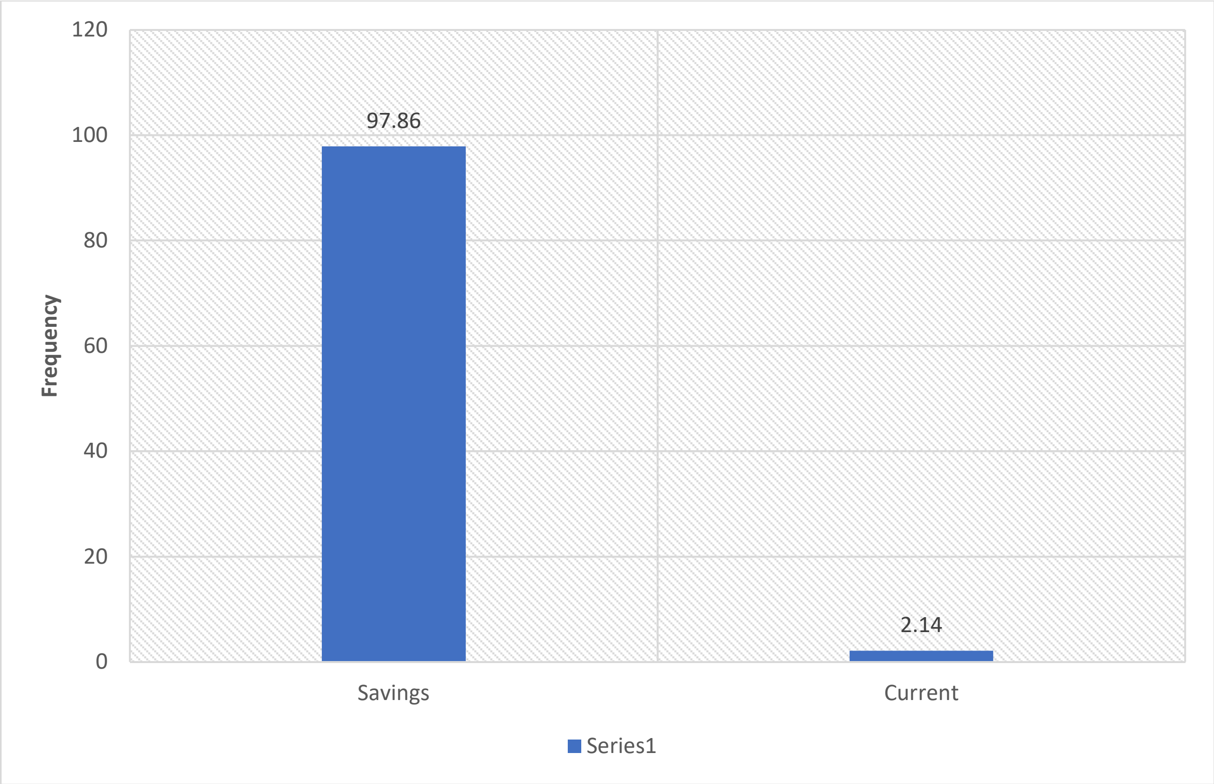
| | | | |
|---|---|---|---|
| | | to collect payments<br>8. Use Late payment sanctions to reduce default rates<br>9. Use of Police and court action to enforce repayment from defaulters | collect payments<br>8. Use Late payment sanctions to reduce default rates<br>9. Use of Police and court action to enforce repayment from defaulters |
| **Differences** | 1.Interest rate on loans | 1.Charged relatively higher nominal interest rates on loans than rural Bank MFIs | 1.Charged relatively lower nominal interest rates on loans than the NGO MFIs |
| | 2.Cost of loans to beneficiaries | 2.Recorded relatively higher APR than the rural Bank MFIs | 2.Recorded relatively lower APR than the NGO MFIs |
| | 3. Frequency of interest payments on deposits | 3.Monthly | 3.Annually |
| | 4. Loan monitoring | 4.Use of both solidarity group peer pressure and village banking social pressures monitoring systems | 4.Use of only solidarity group peer pressure monitoring system |
| | 5.Regulatory environment | 5.Largely unregulated | 5.Regulated by Bank of Ghana through Apex Bank |

Source: Field survey 2012

### 4.2.1 Type of Accounts Respondents Operate

Figure 4.5 represents the views of respondents on the type of accounts they operate in the transaction of credit from the Micro-finance institutions. Among the 140 respondents interviewed, an overwhelming majority (97.86%) of the respondents operated savings accounts, whiles 2.14% of respondents operated current accounts. It is evident from the study that savings accounts are preferred to current accounts and operating a savings account is requirement in accessing credit and other related services from the MFIs. This is consistent with the practice of Grameen Bank that uses savings as a tool to prepare the borrowers to manage their credit (Wrenn, 2005). Available data from the MFIs also indicated the interest paid on deposit and the frequency of payment varied among the various institutions with 6% annually paid by both Bonzali and Borimanga Rural Banks and 8% monthly by Sinapi Aba.

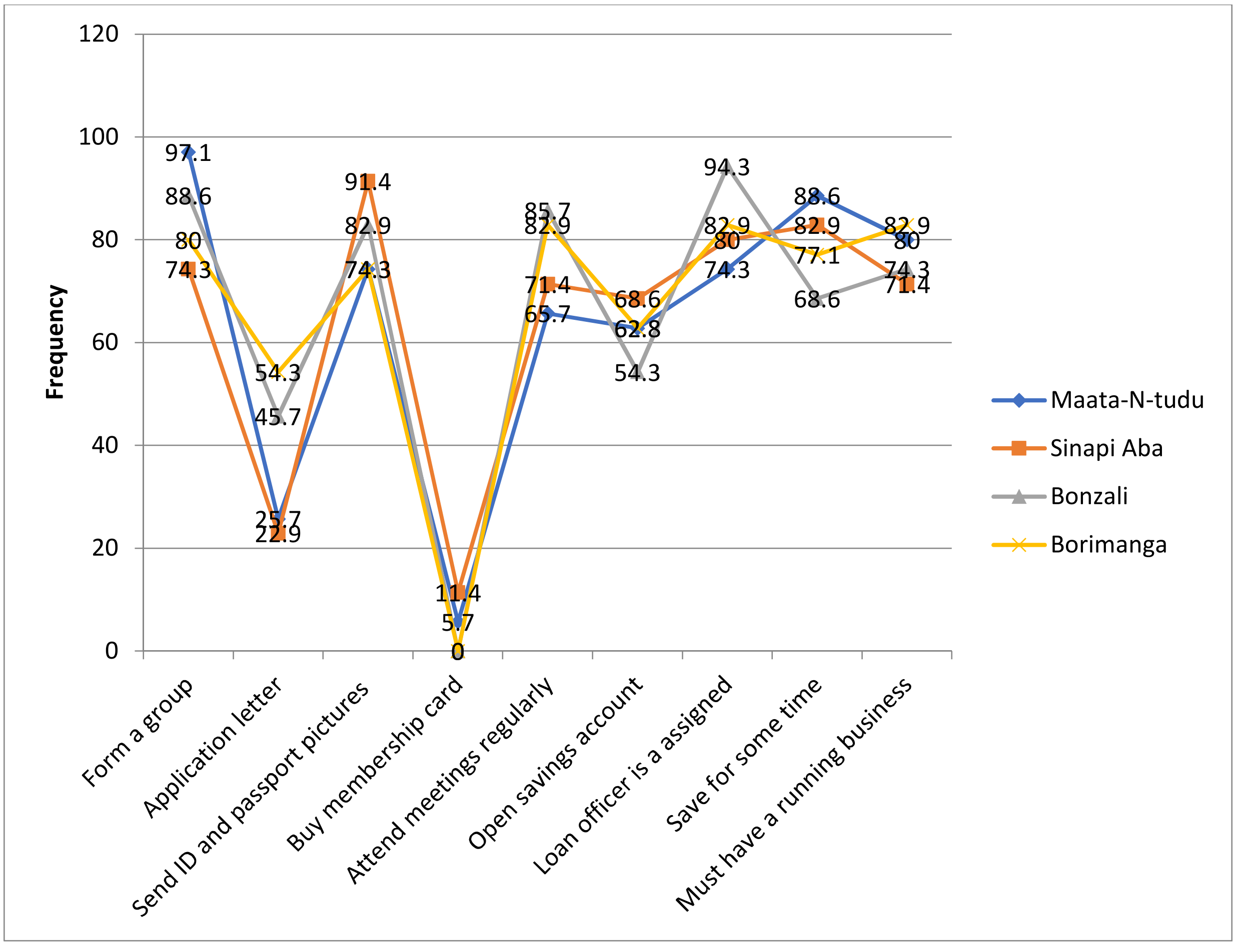
**Figure 4.5 Type of Accounts Respondents Operate**




**Source: Field Survey, 2012.**

### 4.2.2 Procedure for Accessing Loan

**Figure 4.6 Procedures for Accessing Loan**



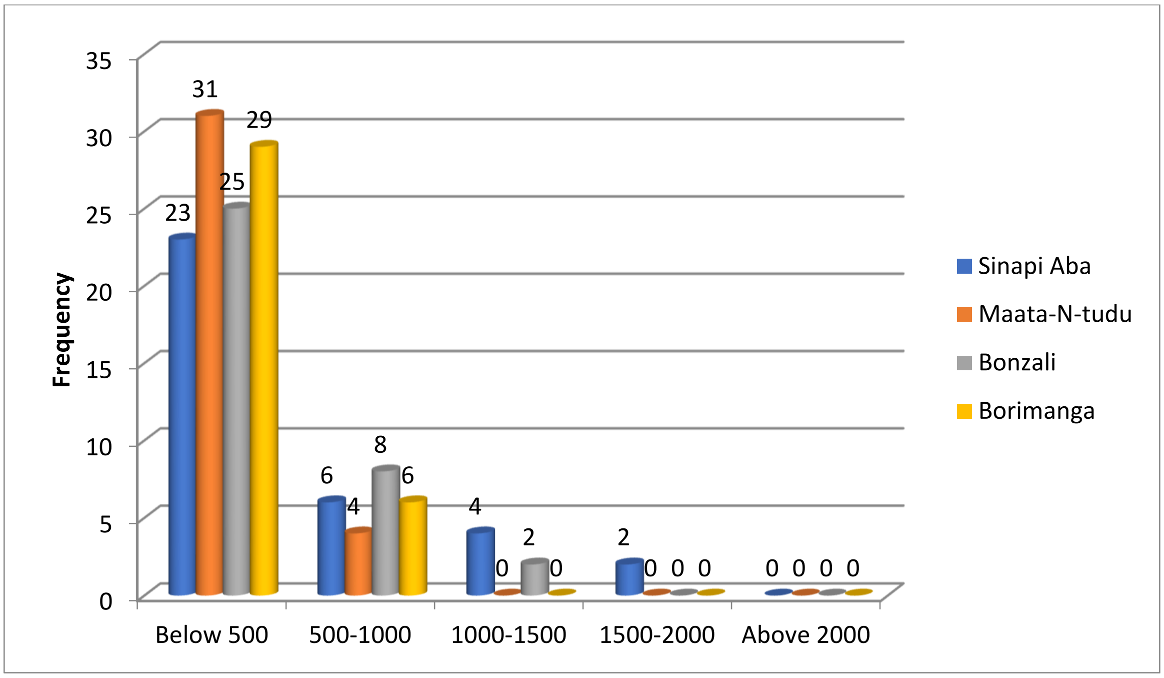

**Source: Field Survey, 2012**

Figure 4.6 represents the various processes involved in accessing credit from the MFIs. As shown in Figure 4.6, the first step in the loan acquisition processes of all the MFIs is the formation of a solidarity group. Individual members of each group contribute monies together to open a savings account using the group name which serves as a collateral in securing the loan. All the MFIs require that, the amount contributed by group members must be up to 10 per cent of the intended loan amount except that of Maata N Tudu which was set at 20% compulsory upfront deposit. Individual members contribute towards this collateral in unequal basis since their capacities are not the same. An application letter is then written to the bank stating the amount the group collectively needs. The loan according to respondents is disbursed to members based on the capacity of the individual to pay back (this includes the size of the business and past records of the member).

This finding implies that even though micro finance institutions target the poor, they still operate within certain parameters and requirements to ensure repayments. This corroborates Markowski (2002) assessment that MFIs have a dual mission: a social mission to provide financial services to large numbers of low-income persons to improve their welfare, and a commercial mission to provide those financial services in a financially viable manner.

### 4.2.3 Size of Loans Beneficiaries Received

**Figure 4.7 Size of Loans Beneficiaries Received**

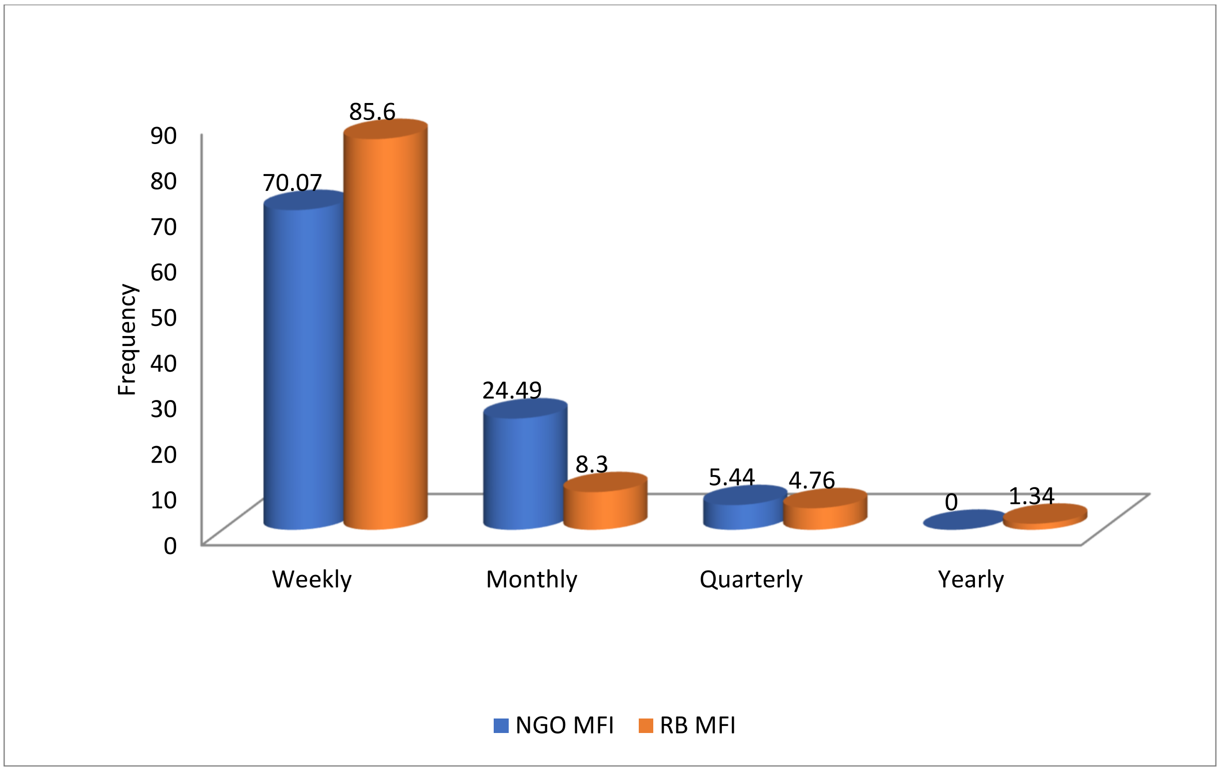



**Source: Field Survey, 2012**

The size of loans beneficiaries received from the various MFIs is presented in Figure 4.7. The study revealed that out of 140 valid beneficiary respondents, (23 percent) indicated that the loan amount they received was in the range of GHC 500 to GHC2000, whiles the majority (77.1 percent) of respondents indicated that the loan size they received was in the range of below GHC 500. This is consistent with Murray and Boros (2002) findings on loan size. According to them, the characteristics of microfinance products include small amount of loans and clients who pay on time become eligible for repeat loans with higher amount. Based on responses from Managers of the MFIs the study also revealed that the loan sizes set by the various MFIs varied slightly and ranged from GHC 50-GHC 1000, GHC 200-GHC 1000, GHC 200- GHC 3000 and GHC 200- GHC 5000 for Maata –N-Tudu, Borimanga Rural Bank, Bonzali Rural Bank and Sinapi Aba respectively.

### 4.2.4 Loan Repayment terms

**Figure 4.8 Loan repayment terms**




**Source: Field Survey, 2012**

Figure 4.8 shows the repayment terms of the various MFIs under the study. Respondents of RB MFI recorded 85.6% for weekly repayment, whiles respondents of NGO MFIs also recorded 70.07% for weekly repayment term. The study shows that weekly repayment is the most commonly used term of repayment as both systems of MFI recorded high percentages there. This agrees with Havers (1996) who stated that appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to sustainability of MFIs.



### 4.2.5 Cost of Loans to Beneficiaries

The study investigated the cost of loans to beneficiaries by way of data obtained from the MFIs regarding the interest rate, processing fees, insurance, taxes and compulsory deposit and using the information to compute the price of the loan by using the Annual Percentage Rate Formula (APR). Table 4.4 presents the cost of loans to beneficiaries for each of the MFIs in the study using the APR formula.

As shown in Table 4.4, although the nominal interest rates range from 30% to 39% among the microfinance institutions, the actual cost of borrowing by beneficiaries of the MFIs is much higher as reflected in the Annual Percentage Rate for each institution. The rates for the NGO MFIs Maata –N- Tudu and Sinapi Aba are relatively High at 59% and 55% respectively as compare with the Rural Bank MFIs Borimanga and Bonzali which are 50% and 40% respectively.

**Table 4.4 Cost of MFIs Loans to Beneficiaries using (APR) Formula**

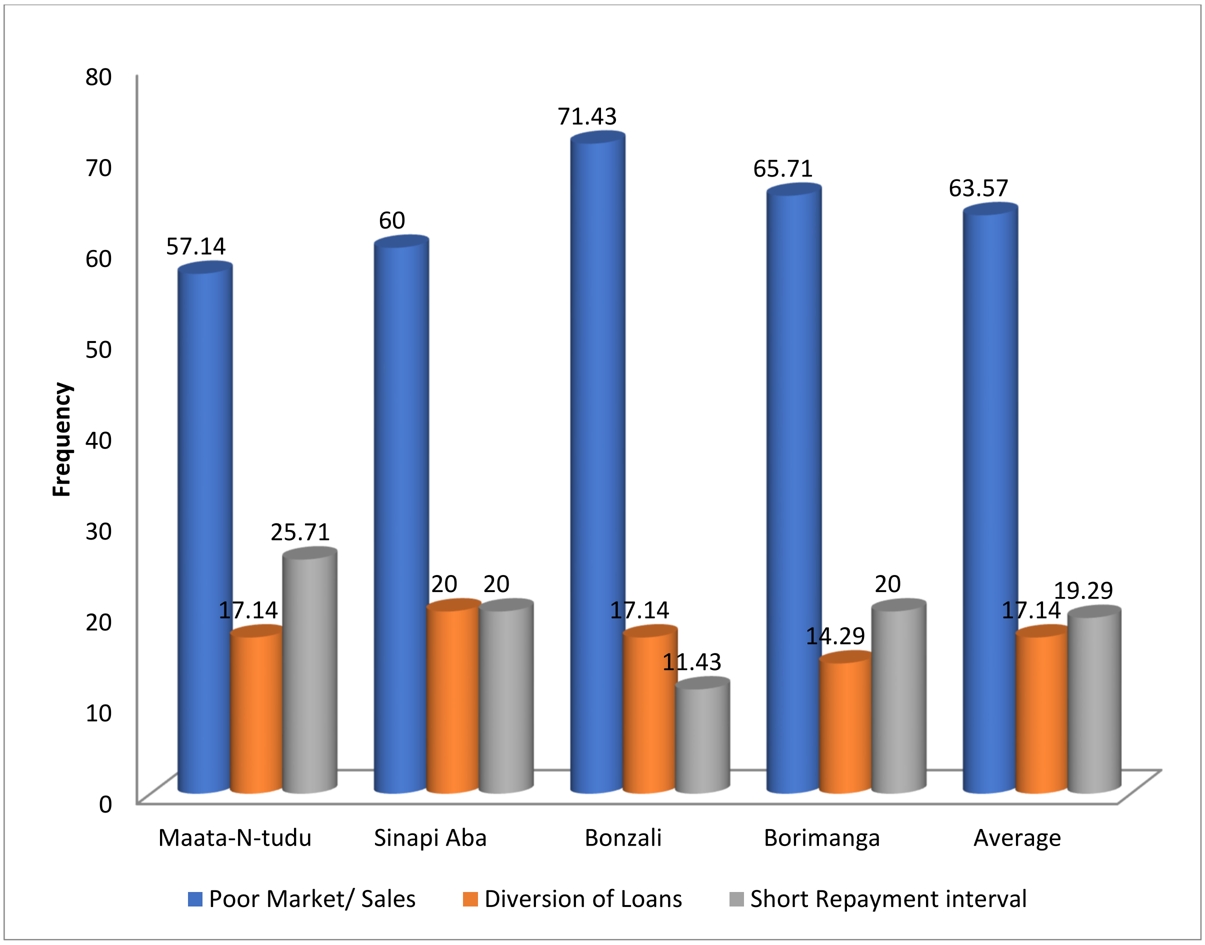
| **Price Component of the Loans** | **Maata-n-tudu** | **Sinapi Aba** | **Bonzali** | **Borimanga** |
|---|---|---|---|---|
| Interest rate component | 38% | 39% | 30% | 30% |
| Processing Fee component | 1.2% | 3.5% | 0 | 0 |
| Insurance component | 0 | 2% | 0 | 0 |
| Deposit component | 20% | 10% | 10% | 20% |
| **APR** | 59% | 55% | 40% | 50% |

**Source: Field Survey 2012**

Staff of the MFIs attributed the rather high interest rate to huge cost incurred in managing the interventions. The rates charged by the MFIs are higher than that of between 24% APR and 35% APR charged by Commercial banking institutions (BOG, 2012) and far lower than the rate charged by moneylenders which is between 100% and 1200% (Buckley, 1997). Micro credit loans are characteristically too small, short-term credit (a year or less), no collateral, required weekly repayment, poor borrower and mostly women who are not qualified for a conventional bank loan. Usually the loan pays high interest rates because of the high cost in running the program (Norhaziah etal 2010).

### 4.2.6 Challenges of Loan repayment

**Figure 4.9 Challenges in Loan Repayment by Clients**




**Source: Field Survey 2012**

Several studies (Greenbaum et al., 1991; Colye,2000; Ozdemir & Boran, 2004) show that when a loan is not repaid, it may be a result of the borrower's unwillingness and/or inability to repay.

The study investigated whether beneficiaries had problems paying back the loans. Despite the diversity in the demographic characteristics of the respondents, the challenges of loan repayment were common to all. Out of the 140 respondents, 75 said they had problems paying back the loan, while 65 said they did not have problems paying back the loan. As shown in the Figure 4.9, the problems identified with difficulties in loan repayment were poor market or sales of products (63.57 percent), Diversion or misapplication of loan (17.14 percent), and short repayment intervals as the MFIs mostly required weekly repayments. (19.26 percent).

Some of the beneficiaries explained that their businesses were not generating sufficient revenue to pay back the loans because of poor sales for their products. Thus, Loan repayment was therefore a challenge for them. Tedeschi (2006) notes that there are two possible reasons for default: strategic default or default due to a negative economic shock. The lending contract provides incentives to discourage strategic default, but default due to an economic shock is unavoidable.

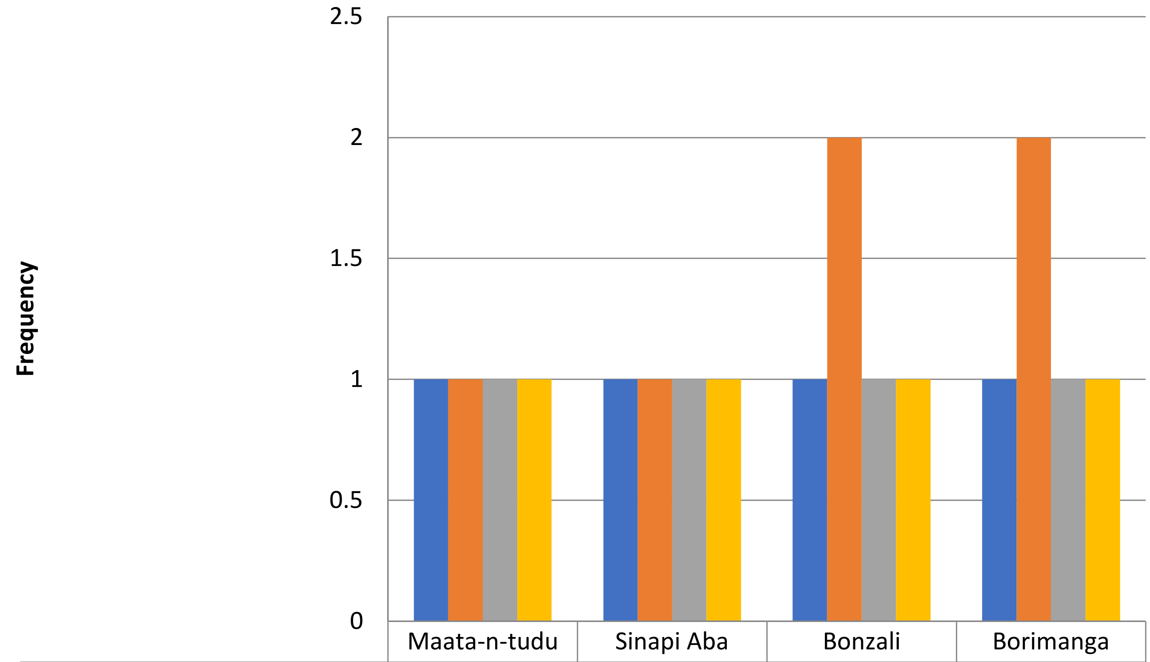
Some explained that they had to use the loans to solve some important issues such as children school fees, medical bills, funeral expenses and many others. Stiglitz and Weiss (1981) recommend that the MFIs should monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans.

Some beneficiaries also complained that the weekly repayment period was too tight and that they wanted the monthly repayment interval instead**.** According to Mknelly and Kevane (2002) beneficiaries are generally known to complain about repayment instalments but practitioners consider them essential for sustaining high repayment rates.

### 4.2.7 Strategies Used by MFIs to Recover Loans

The strategies employed by the MFIs in the study to ensure high loan repayment rates are presented in Figure 4.10. The MFIs in the study used various methods including the peer monitoring systems in group-based lending such as the Solidarity group peer pressure monitoring and the village banking social pressure monitoring systems and other ways such as late repayment sanctions and sometimes even enforcement by police or court action to recover loans from defaulting beneficiaries

**Figure 4.10 Strategies Used by MFIs to recover Loans**




| | Maata-n-tudu | Sinapi Aba | Bonzali | Borimanga |
|---|---|---|---|---|
| Solidarity group peer pressure model | 1 | 1 | 1 | 1 |
| Village banking social pressure model | 1 | 1 | 2 | 2 |
| late repayment sanctions | 1 | 1 | 1 | 1 |
| Enforcement by police/court | 1 | 1 | 1 | 1 |

Code 1= Method is used 2= Method is not used

**Source: Field Survey 2012**

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The Solidarity group model is a lending methodology where borrowers are in a group of typically 3 – 7 members (Yunus, 1999). Members provide collateral or loan guarantee through a group repayment pledge. The group mobilised their members to receive and repay the loan. Each group had leaders who were responsible for ensuring that the groups functioned effectively.

The leaders comprised the chairperson, secretary, financial secretary and treasurer. The leaders were responsible for inviting members to meetings and moderating at the meetings. It was their duty to ensure that beneficiaries had gathered on repayment days in readiness for the credit officers who came to collect the monies. The leaders could also collect the monies due for repayment from the members and go to pay at the microfinance institution. Group payment was supposed to be done weekly (Ledgerwood, 1999).

However, in the case of a member defaulting in payment, it was the duty of all the group members to ensure that the member paid, or they contributed to cover the defaulting member's portion. This practice is like the Group Peer Pressure Model of the Grameen Bank which Wrenn (2005) identifies as one of the microfinance models suitable for advancing loans to clients. According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organisations such as the Grameen Bank, who use this type of microfinance model and has also contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system.

According to staff of the four MFIs interviewed, it is easier for groups to pay loans than individual clients. This is followed by regular monitoring and demand notices. Though group-lending has long been a key part of microfinance, the use of group-lending was motivated by economies of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Many times, the loan of one participant in group-lending depends upon the successful repayment of another member, thus transferring repayment responsibility off the institutions to the loan recipients or beneficiaries.

It was also interesting to the find that some of the MFIs particularly the NGO MFIs (Sinapi Aba and Maata- N -Tudu) also employed the village banking method to advance loans to beneficiaries. A village bank is an informal self-help support group of 20-30 members established by NGOs as community-managed credit and savings associations to provide access to financial services and help members accumulate savings (Hulme, 1999). To eliminate the need for collateral, village banks rely on a variation of the solidarity lending methodology. It relies on a system of cross-guarantees, where each member of a village bank ensures the loan of every other member. This system gives rise to an atmosphere of social pressure within the village bank, where the cost of social embarrassment motivates bank members to repay their loans in full. The admixture of cross-guarantees and social pressure makes it possible for even the poorest people to receive loans.

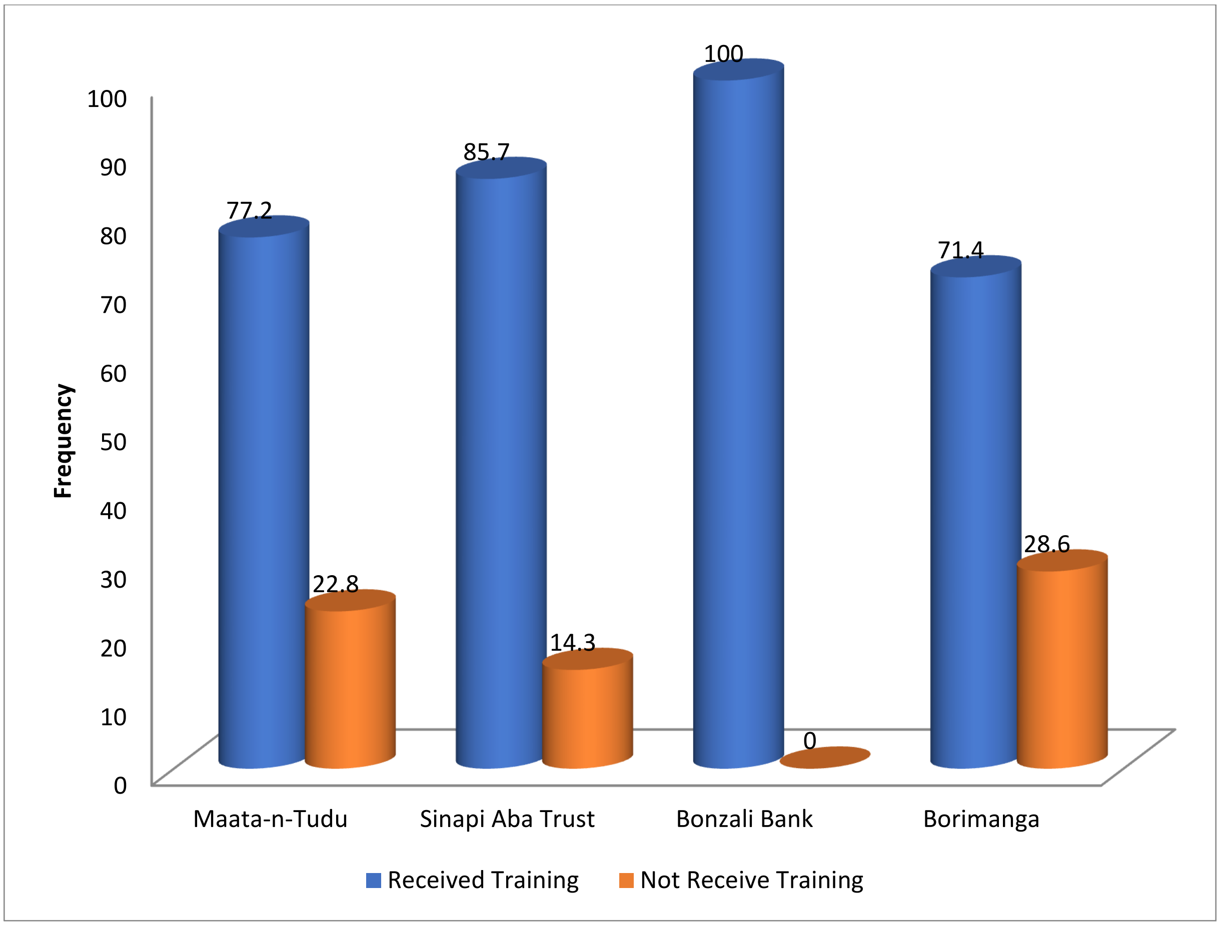
According to (Grameen Bank, 2000), village banks are highly democratic, self-managed, grassroots organizations. They elect their own leaders, select their own members, create their own bylaws, do their own bookkeeping, manage all funds, disburse and deposit all funds, resolve loan delinquency problems, and levy their own fines on members who come late, miss meetings, or fall behind in their payments. These village banks are directly supervised by staff of the NGO or microfinance institution, from which they receive much of their loan financing.

The study also revealed that apart from the lending methodology, loan defaulters are dealt with in various ways by the MFIs. The MFIs resort to applying late payment sanctions such as payment of default penalties, denial of access for a new loan to the group until full repayment of old loans, persuasion after which the term of payment is rescheduled. The last resort is where police or legal action is taken against defaulters.

### 4.2.8 Microfinance Clients Who Received Training

Figure 4.11 reveals that a significant portion of the respondents received some sort of training before and or after they were given the loan. That is 77.2%, 85.7%, 100% and 71.4% for Maata-n-tudu, Sinapi Aba, Bonzali and Borimanga respectively. This shows that participation in business orientation and training sessions is one of the preconditions to accessing credit from the MFIs as it ensures that clients get the requisite skills to run their enterprises and be in position to the repay the loan they obtained. This is consistent with Steel and Chairwomen's (2003) position that new paradigm recognises that financial services may need to be augmented by complementary investments that help clients build access and skills through training in both technical and management skills and supporting business. Also, Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance. Moreover Roslan & Mohd Zaini (2009) found that borrowers that did not have any training in relation to their business have a higher probability to default.

**Figure 4.11 Microfinance Clients Who Receive Training.**

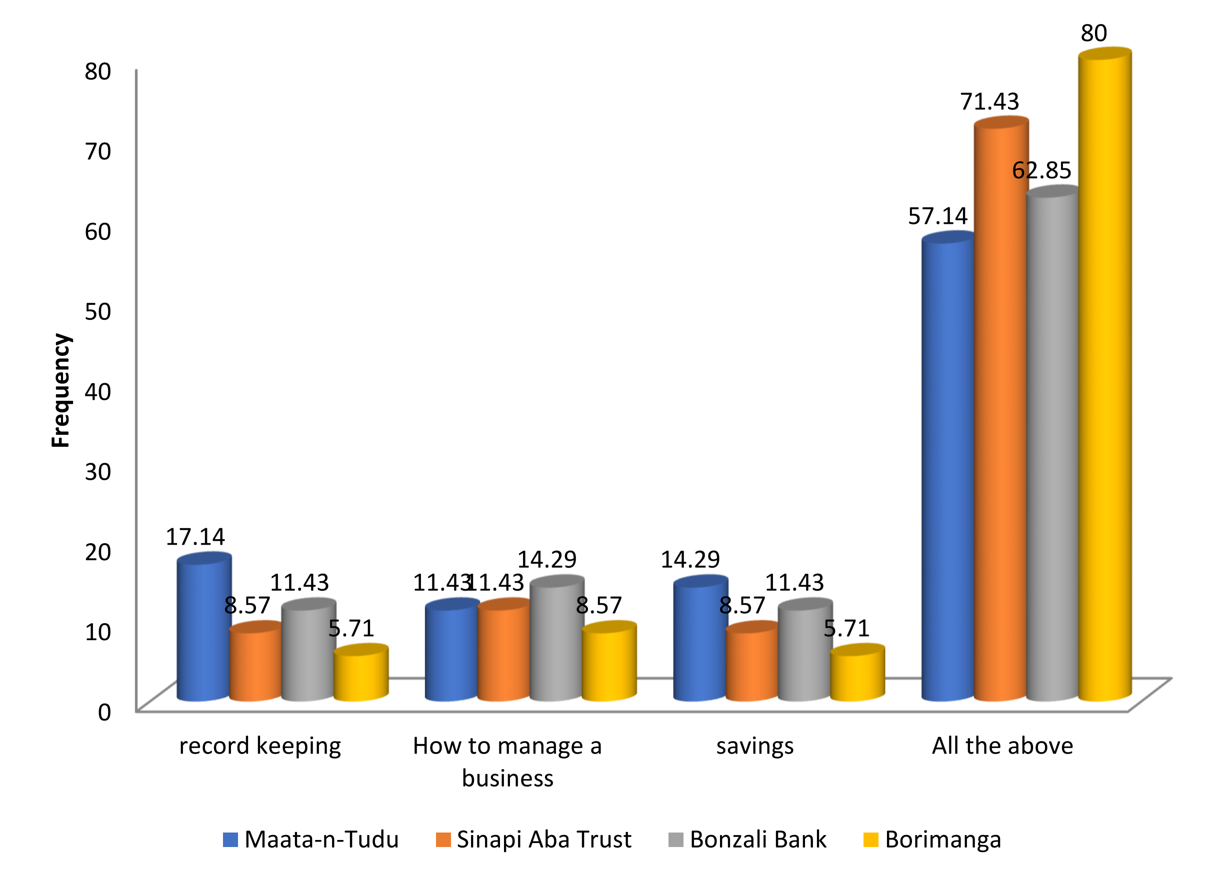



**Source: Field Survey, 2012**.

### 4.2.9 Areas in which Clients have received training

The study looked at areas in which the beneficiaries received training before the disbursement of the loan. As shown in Figure 4.12, 57.14%, 71.43%, 62.85% and 80% beneficiaries of Maata-n-tudu, Sinapi Aba, Bonzali and Borimanga respectively received some form of training in all three aspect of business management namely record keeping, credit management, and savings mobilization. They also had training in group dynamics to promote group cohesion and development. The training programmes were conducted by staff of the MFIs. The venues of the programme were the various communities of the beneficiaries. All the groups had training for one day before they were certified for loans. The approach for training was participatory and adult learning oriented.

**Figure 4.12 Areas in which clients are trained**



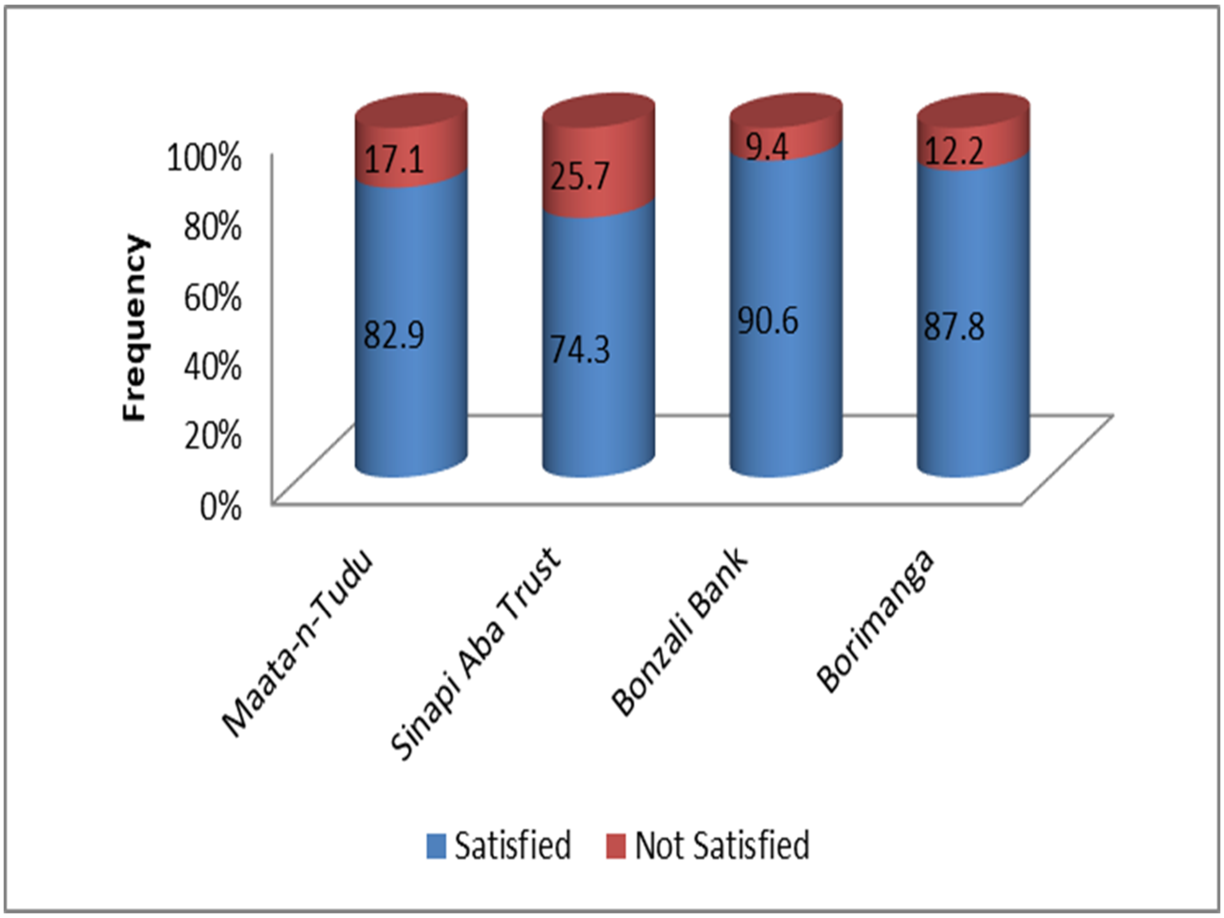

**Source: Field Survey, 2012**.

### 4.3 Perception of Clients on Operational Strategies of MFIs

From Figure 4.13, it is evident that the majority of respondents were satisfied with the procedure for accessing credit.

It is interesting to note that, the diverse background or demographics of the respondents (differences in age, economic activity, sex and marital status) seem not to have had any influence on client perception of the operational strategies of the MFIs. This is shown in the results as 82.9%, 74.3%, 90.6% and 87.8% of respondents for Maata-n-tudu, Sinapi, Bonzali and Borimanga said they were satisfaction with the processes involved in accessing loans from the MFIs.

**Figure 4.13 Satisfaction of clients with procedures for accessing loans**



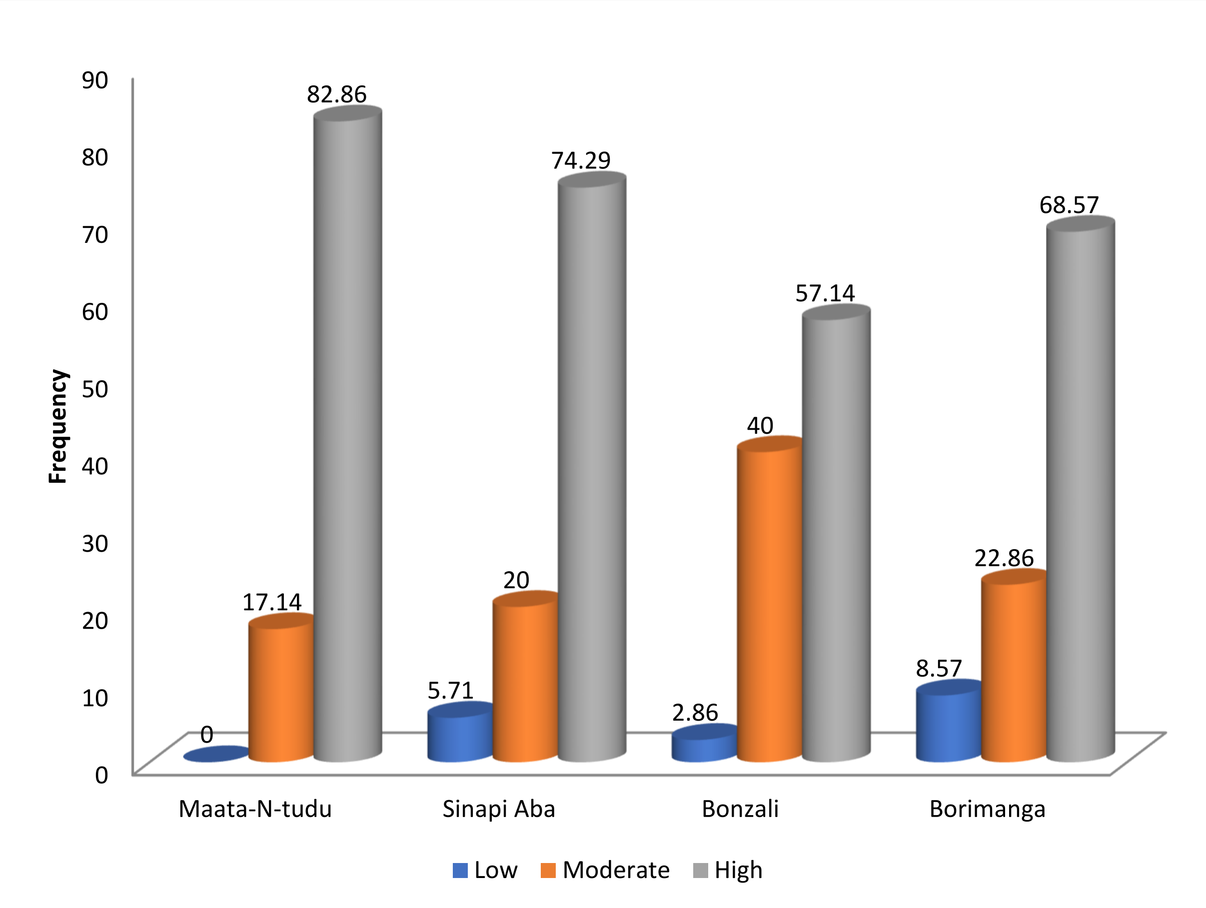

**Source: Field Survey, 2012**.

### 4.3.1 Clients views on loan interest rates

Figure 4.14 presents the opinion of clients when asked about their views on the interest rates charged by the various MFIs on the loans they accessed. As shown in Figure 4.14, 82.86%, 74.29%, 57.14% and 68.57% of respondents for Maata-n-tudu, Sinapi, Bonzali and Borimanga respectively said the interest rates are high. This suggests that although MFIs are pro poor, their interest rates are as high as the conventional commercial banks implying that access to credit from the MFIs may come at great cost to their poor clients.

The educational level of the clients seems not to have influenced their view on interest rates as most clients had just basic education (as shown in Figure 4.3).

**Figure 4.14 Clients views on loan interest rates**

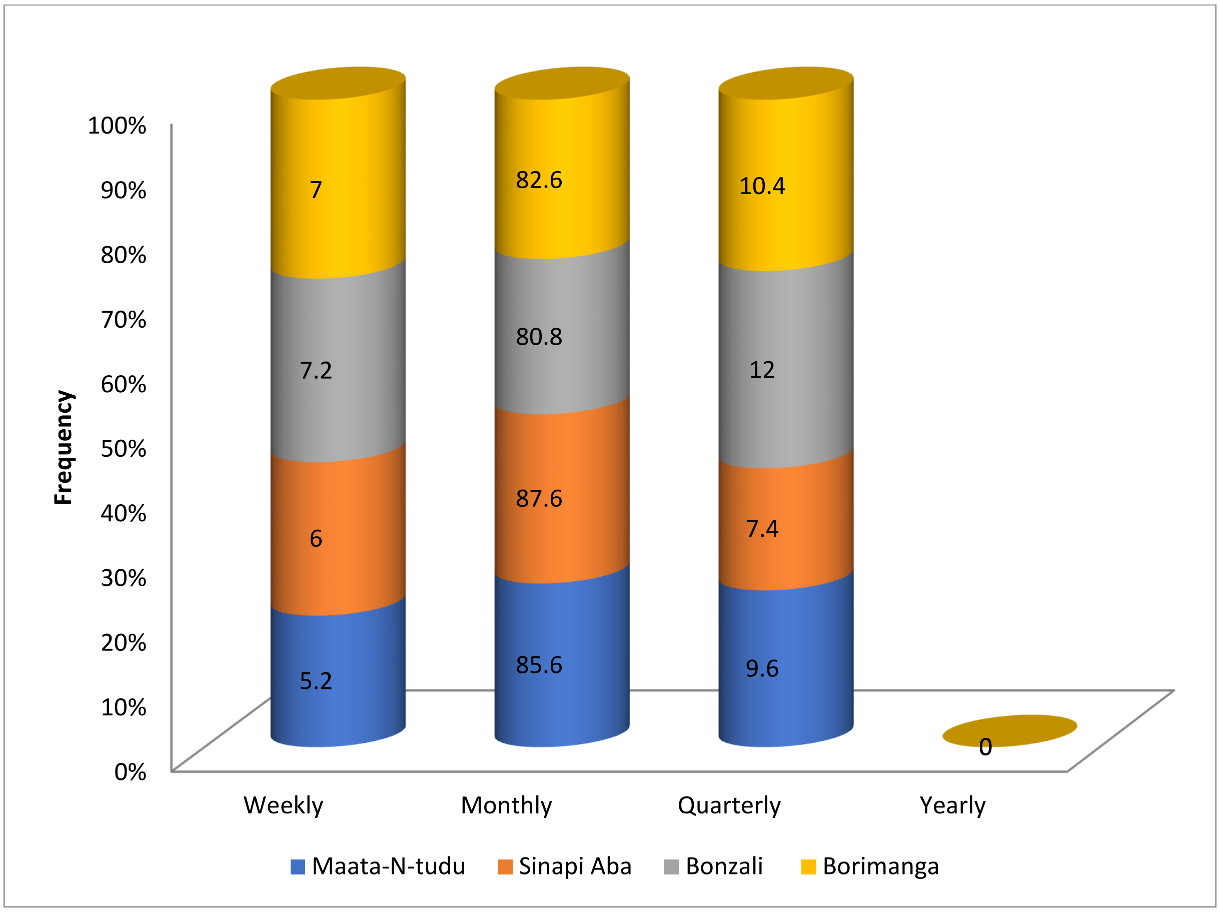



**Source: Field Survey, 2012**.

### 4.3.2 Client Preferred Term of Payment

Figure 4.15 indicates that most clients would have preferred monthly payments schedules to the conventional weekly repayment term, as all four institutions recorded significant responses on monthly repayments that is 85.2%, 87.6%, 80.8%, 82.6% for Maata-n-tudu, Sinapi, Bonzali and Borimanga respectively. It is interesting to note that, even though many of the clients were into trading (41.43%) and processing (40%) and only 7’14 % were civil servants (as shown in Figure 4.4) they preferred monthly payments. However, the beneficiaries were realistic in their expectation of the MFIs since none said they preferred yearly payment.

**Figure 4.15 Clients preferred Term of Loan Repayment**




**Source: Field Survey, 2012.**

**4.4 Constraints to Operational Strategies of Microfinance Institutions - Clients Perspective**

In investigating whether beneficiaries had constraints in securing the loan, respondents who had difficulties in that regard provided reasons for their experience which is presented in Figure 4.16. The main challenges are; bureaucratic credit processing procedures such as must belong to solidarity group since the MFIs do not favor giving loans to individual, compulsory savings, high interest rates, the untimely delivery of credit and too many meetings before credit is given. These practices are not consistent with the report of Murray and Boros (2002) that microfinance procedures are simple and processing periods are short.

One of the main constraints identified by clients in dealing with the MFIs as shown in Figure 4.16 was the solidarity group lending methodology which is preferred to individual lending because of the social collateral it offers in ensuring high rate of loan repayments.

However most of the clients interviewed would have preferred taking individual loans instead of group loans if that was an available option. Some of the clients indicated that the draw back to the group lending method is that sometimes loans could be delayed mainly because of the inability of other members of the group to complete their repayments on schedule.

Available literature shows that although group loans make up the bulk of microloans worldwide, individual lending is significant in some areas and is growing in popularity. Armendariz de Aghion and Morduch (2000) considered microfinance beyond group lending in Eastern Europe, Russia, and China. They described the mechanisms that allow MFIs to successfully penetrate new segments of credit markets. These features include direct monitoring, regular repayment schedules, and the use of non-refinancing threats.

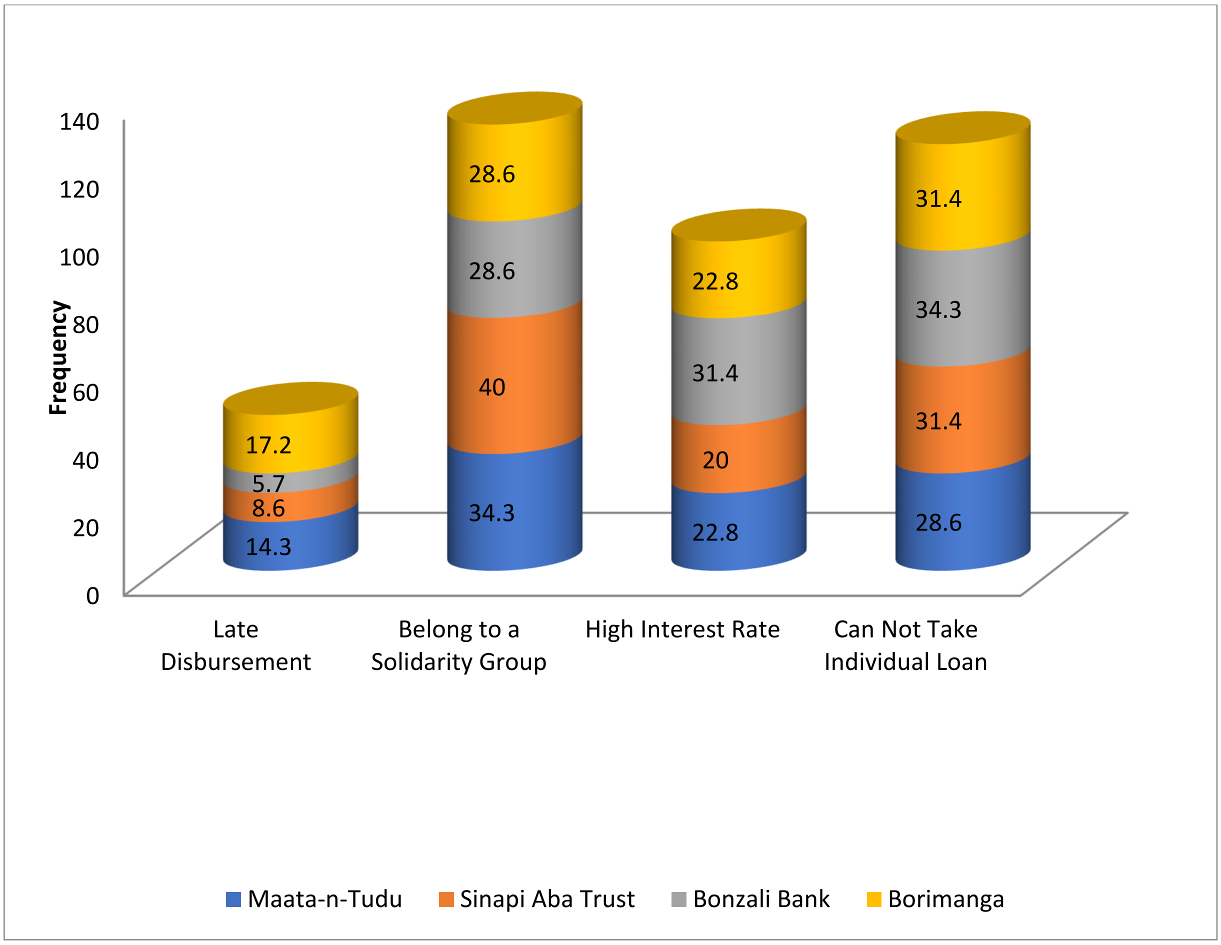
Due to the nature of MFI clientele and the varying environments in which MFIs operate, best practices must be adaptable to the specific area in which the institution operates. Bhatt and Tang (2001) states that the future success of microfinance will depend on MFI design tailored to specific clients. This assertion highlights the importance of research to develop sound practices of MFI design and management especially regarding individual lending.

Figure 4.16 shows high interest rate as another problem identified by clients in dealing with the MFIs highlighting the need for the determination of an optimal interest rate to charge borrowers.

The study explored the cost of loans to borrowers and revealed relatively high cost of loans to the MFI beneficiaries by computing the true price of loans using Annual Percentage rate formula (see Table 4.4). This finding is consistent with the report of Brau and Woller (2004) that MFIs operate with very high administrative costs per dollar lent relative to formal financial institutions. Thus, to achieve financial self-sufficiency, MFIs must charge relatively high interest rates.

Moreover Conning (1999) finds that sustainable MFIs that target poorer borrowers must charge higher interest rates, because they have higher staff costs, and are less leveraged than those targeting less poor borrowers.

**Figure 4.16 Constraints Identified by clients in dealing with MFIs**




**Source: Field Survey, 2012**.

### 4.4.2 Constraints to Operational Strategies of Microfinance Institutions -MFIs Perspective

Volschent (2002) classified the problems experienced by MFIs in terms of strategic, operational, capitalization and marketing issues. The researcher focused on problems that may impede upon the operations of the MFIs and categorized them into client related, system related, and staff related problems. Top Level Managers of the MFIs were requested to rank each of the problems in the survey by the extent to which it poses a challenge that affects the operations of the MFI. Responses regarding the severity of the problems were collected by means of questionnaires and personal interviews. They were asked to rank eight of the problems on an eight-point scale. Thus, the least problem was given a score of 1 and the severest problem was given the highest score of 8. This was done to every respondent. The summary measure used to present the result of these data was the mean score. These means scores were then sorted from highest to lowest. Thus, the highest mean score was a rank of 8 and the lowest give a rank of 1 and in that order. Table 4.5 shows that poor credit appraisal of clients under the system related problems posed the severest challenge to the MFIs and the least challenge to the MFIs is low educational level of clients which is a client related problem. MFIs system related, and staff related problems ranked higher than client related problems indicating that the MFIs in the study tend to experience more problems relating to their own internal systems and staff than to their clients.

The system related problems include poor credit appraisal of potential clients, poor or inadequate monitoring of loans, high transaction cost and poor regulatory environments. The problem of poor credit appraisal of potential clients exists in the MFI credit market because adverse selection and moral hazard exist between the relationship of lenders (MFIs) and borrowers (beneficiaries) due to the asymmetry of information. Asymmetric information is a condition that occurs when one party to a transaction (i.e. the borrower) has more information than the other party (i.e. the lender). In financial transactions, this market failure can take two distinct forms: moral hazard, in which a borrower's intention to repay changes after receiving a loan disbursement, and adverse selection, in which a borrower approaches a lender because they are unable to obtain a loan from other institutions due to previous defaults.To mitigate this problem, Stiglitz and Weiss (1981) recommend that the MFIs should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. Greenbaum and Thakor (1995), suggest looking at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not.



**Table 4.5 Ranking of Operational Problems of MFIs**

| | PROBLEMS | AVERAGE SCORE | RANKING |
|---|---|---|---|
| Client Related | Low educational level of clients | 1.50 | 1 |
| | Diversion of loans | 4.25 | 3 |
| | Delinquency and payment default risk | 3.50 | 2 |
| System related | Poor credit appraisal | 6.25 | 8 |
| | Poor regulatory environment | 4.50 | 4 |
| | Inadequate monitoring of loans | 5.25 | 6 |
| | High transaction cost | 5.75 | 7 |
| Staff related | Inadequate skill development/Training of Staff | 5.00 | 5 |

Ranking 1----8. Where 1 is the least problem and 8 the most severe problem

High transaction cost was ranked as the second problem that poses a great challenge to the operations of the MFIs as clearly shown in Table 4.5. High administrative and running costs were some of the reasons cited for the apparent high transaction costs. It is therefore recommended that MFIs must devise various institutional mechanism aimed at reducing high cost of transactions. Ghatak, Islam (1995) contends that MFIs using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate, the expected rate of repayment is higher with lower risk when using peer monitoring.

Ranked third was the problem of inadequate monitoring of loans. Understaffing and lack of logistics (vehicles/motor bikes) were the most common reasons given as the causes of ineffective monitoring. Roslan Abdul Hakim et al. (2007) in their study recommended that a close and informal relationship between MFIs and borrowers may help in monitoring and early detection of problems that may arise in non-repayment of loans. In addition, cooperation and coordination among various agencies that provide additional support to borrowers may help them succeed in their business.

The fourth ranked problem was poor regulatory environment. It was interesting to find that poor regulatory environment though ranked fourth was identified as a challenging problem by the NGO MFIs as opposed to the Rural Bank MFIs who did not rate it as much as a problem because Rural and Community banks are regulated by the Bank of Ghana under the Banking Act 2004 (Act 673) and the establishment of an Apex Bank for Rural Banks in Ghana.

The rest of the players such as FNGOs, ROSCAS, and ASCAs do not have explicit legal and regulatory frameworks and are largely unregulated. Thus, the role of GHAMFIN as an umbrella body for microfinance apex institutions, as well as their member institutions, needs to be strengthened to ensure the transfer of best practices and setting of standards for the industry.

As with most issues in microfinance, the effectiveness of microfinance as a policy tool for poverty alleviation and the optimal regulatory context for MFI development are still open questions. Researching these issues has the potential to be a rich area for discovery.

Moreover, staff related problems posed marginally higher challenges than client related problems and was ranked as the fifth problem of the MFIs. They explain this to mean that some of their loan officers lack the skills required for the Job, for example the skills needed to adequately assess a credit proposition and to reasonably determine their commercial viability or otherwise. There is therefore the need for sustained periodic and effective skills trainings to help the MFIs staff skill development process coupled with appropriate staff incentive schemes to boost the morale of staff in general.

The study also found that client related problems were the least ranked problems to the MFIs. This finding is consistent with Stearns (1995) who argues that, "it is the lender not the borrower, who causes or prevents high levels of delinquency in credit programs. While, Awoke (2004), reports that most of the default arose from poor management procedures, loan diversion and unwillingness to repay loans. Therefore, the lenders must devise various institutional mechanisms that are aimed to reduce the risk of loan default. Thus, the responsibility therefore lies with the MFIs to devise various methods, strengthen their institutional capacities and internal processes as well training and maintaining a highly skilled and motivated staff to reduce or prevent the risk of loan defaults by clients.

# CHAPTER FIVE

# SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

## 5.1 Summary of Key Findings

The major findings of the study are presented along the lines of the socio-demographic characteristics of beneficiaries of the MFIs, the operational strategies of rural bank MFI and NGO MFI, client perception about the operational strategies of the MFIs and constraints to the operations of the MFIs.

The study sampled respondents from three districts namely, Tamale Metropolis, Savelugu-Nanton and Tolon-Kumbugu all in the Northern Region of Ghana. Out of the 140 respondents sampled, females appeared to be more involved with microfinance institutions than their male counterparts as the study sampled 77.9% of females out of the total beneficiary respondents of the MFIs. This was even though three of the MFIs in the study extended their services to both men and women without discriminating between genders, whereas one of the NGO MFIs in the study exclusively targeted and extended their services to only women clientele.

The respondents interviewed were engaged in various economic activities with trading and processing being the main economic activity of respondents. Also, the ages of all the respondents contacted were below 60% which was below the compulsory retirement age thus they were economically active and attracted to the prospecting activities of the MFIs. Also, Majority of respondents were found to be married and that was not surprising to the researcher because marriage increases the concern for family welfare and its attended responsibilities and thus had a positive influence in respondents participation in the MFIs programs.   Moreover, the majority of respondents had no formal education and the study found that although education has its own advantages, but it was not a limiting factor to accessing the services of the MFIs.

The four MFIs from which clients were sampled for the study were found to have employed some common operational strategies in their dealings with their respective clients. Some of the operational strategies included the use of solidarity group lending methodology, enforcement of compulsory savings, offering of small loans ranging from GHC50 – GHC 1000 and training services in areas such as book keeping, business management and savings mobilisation and the requirement of weekly loan repayment. Also, all the MFIs in the study do not favour individual lending. Thus, the processes involved in accessing a loan from the MFIs in the study includes; solidarity group formation, opening of deposit accounts, regular meeting attendance, submission of application letter, passport pictures and ID cards, saving for some time, must run a business. A loan officer is usually assigned to the group and loans are disbursed after training services are completed. The findings show that although MFIs cater for the needs of the poor they still operate within certain parameters to ensure repayment.

The study further revealed that the MFIs also used common strategies to recover loans from defaulting clients and these include the use of group guarantee or peer monitoring system, late payment sanctions such penalties and denial of new loan until old loans are fully paid as well as enforcement by police and court action. The NGO MFIs however used another peer monitoring system called the village banking model which is also effective in the use social pressure on defaulters to ensure repayment. The use of the peer monitoring system ensures that the group takes over the underwriting, monitoring and enforcement of loans from the MFIs.

However, the study also revealed a few variations in the operational strategies of the MFIs in the study. Available data from the MFIs also indicated the interest paid on deposit and the frequency of payment differed among the various institutions for instance 6% annually was paid by both Bonzali and Borimanga Rural Banks and 8% monthly by Sinapi Aba. They also differed in terms of the nominal interest rate or the APR, processing fees and other charges they charged on loans to beneficiaries.

The opinions of beneficiaries were sampled regarding their perception of the operational strategies of the MFIs in the study. It appeared that the diverse demographic characteristics of the respondents did not result in any difference in their views on the perception of the operational strategies of the MFIs. The study found that clients were generally satisfied with the procedures involved in accessing credit from the MFIs, however, they expressed concern with the high interest rates charged by the MFIs indicating that the services of the MFIs comes at great cost to their poor beneficiaries. Clients also indicated that they preferred monthly repayment term to the weekly repayments term which was the prevailing practice, stating that the short interval of payment puts a lot of pressure on them and was cited as one of the challenges in loan repayments among others such as poor sales and diversion of loans for purposes other than for business which was the intended use of the loans.

The study also investigated the constraints clients faced in dealing with the MFIs and found that the group-based lending methodology was highlighted as one of the constraints identified by clients because it was preferred by the MFIs to individual lending because of the social collateral it offers in ensuring high rate of loan repayments. However most of the clients interviewed would have preferred taking individual loans instead of group loans if that was an available option. Also, High interest rates and late disbursement of loans were also identified by clients as operational constraints of the MFIs.

From discussions with the management of the various micro finance institutions, the study requested the management to rank their operational problems based on severity. Responses regarding the severity of the problems were collected and the ranking order of the most severe operational challenges revealed that poor credit appraisal of potential clients under the system related problems posed the severest challenge to the MFIs and the least challenge to the MFIs is low educational level of clients which is a client related problem.

Based on the mean score ranking order, MFIs system related and staff related problems ranked higher than client related problems indicating that the MFIs in the study tend to experience more problems relating to their own internal systems and staff than with their clients. The system related problems include poor credit appraisal of potential clients, poor or inadequate monitoring of loans, high transaction cost and poor regulatory environments. Moreover, staff related problems such as inadequate skill development/Training of Staff posed marginally higher challenges than client related problems and was ranked as the fifth problem of the MFIs. Client related problems such as delinquency or payment defaults, diversion of loans and low educational level of clients were the least ranked problems to the MFIs. This finding is consistent with Stearns (1995) who argues that, it is the lender not the borrower, who causes or prevents high levels of delinquency in credit programs.

**5.2Conclusion of the study**

The objective of the study was to compare and analyse the operational strategies and challenges of the NGO MFI and the Rural Bank MFI.

The study investigated the nature and target customers of the two types of MFIs. The finding shows that, majority of respondents were below 60 years and actively engaged in various economic activities thus targeted by the prospecting activities of MFIs. Also, women were found to be the major borrowers and customers of the Microfinance Institutions. The focus on female entrepreneurs allows marginalized women to gain access to the economic opportunities that they need to empower themselves.

In addition, most of the customers were married thus because of the increased responsibility and concern for household welfare they became customers of MFIs to source loans to better their income generating activities such as trading and processing. Moreover, although majority of the respondents had some basic education, education was not a limiting factor to becoming a customer of MFIs.

The research also explored the operational strategies of the MFIs in the study. The operational strategies that were common to all the MFIs in the study include the use of solidarity group lending methodology, enforcement of compulsory savings, offering of small loans with weekly repayment terms and training services in areas such as book keeping, business management and savings mobilisation. The MFIs also used common strategies to recover loans from defaulting clients and these included the use of the group guarantee or peer monitoring systems, late payment sanctions such penalties and denial of new loans until old loans were fully paid and sometimes enforcement by police and court action.

Over all the MFIs have developed many unique and innovative practices to account for the difficulties of providing credit to the poor. The use of group lending methods has enabled microfinance programs to reach areas with restricted mobility and lack of infrastructure. Trust and group lending practices encourage the poor to collaborate in mutual trust and friendship and to offer support for community loans and small businesses.

However, the study also revealed a few variations in the operational strategies of the MFIs in the study and these included differences in terms of the nominal interest rate charged and cost of loans to customers or the APR were found to be relatively higher for the NGO MFIs than the Rural Bank MFI. Also, the interest paid on clients deposits and the frequency of such payments were relatively higher and more frequent for the NGO MFI than the Rural Bank MFI. It was also found that the NGO MFIs used the social pressure monitoring system of the village banking model as another loan monitoring tool.

This study also investigated the constraints clients faced in dealing with the MFIs and found that clients identified the lending requirement of belonging to a solidarity group, high interest rates and late disbursements of loans as constraints in the operations of the MFIs.

Management of the MFIs also identified constraints such as poor credit appraisal of potential clients, poor or inadequate monitoring of loans, high transaction cost and poor regulatory environments particularly for the NGO MFI and inadequate skill development and training of staff as problems that posed the severest challenge to their operations. The study also found that client related problems such as delinquency or payment defaults, diversion of loans and low educational level of clients were the least ranked problems to the MFIs in the study. The study revealed that MFI system related problem and staff related problem ranked higher than client related problem such as payment default, diversion of loans and low educational level of clients.

### 5.3 Recommendations

Based on the findings of this study, the following recommendations were made. To address the problem of poor credit appraisal of potential clients which exists in the MFI credit market because of the asymmetry of information, MFIs should devise various methods of screening to be able to select good borrowers from bad ones. It is recommended that the MFIs should collaborate with each other to establish their own system of MFI credit bureaus by building a strong and a reliable database of all clients and integrate all branches of the various MFIs in order to trace clients and to access the credibility of clients from other MFIs records to curb the multi acquisitions of loans from MFIs. By making client histories broadly available, it will enable MFIs to screen good and bad borrowers, thus reducing the level of information asymmetry between borrowers and lenders and decreasing the risks of moral hazard and adverse selection in MFIs financial transactions. It is also recommended that the various MFIs should have an information system that works properly and efficiently to provide any information on borrowers on demand such as in case of cross default i.e. if the borrower fails to meet his/her obligations with another MFI. This should normally involve the classification of the borrower at least on a watch list.

MFIs should ensure strict adherence to regular loan monitoring. Loan monitoring forms a crucial part of the whole credit administration process. With proper and regular loan monitoring, default rates could be very minimal. Without it, even some customers with repayment potential would deliberately default. To ensure effective monitoring, management of MFIs should ensure their institutions are adequately resourced in terms of staff, vehicles and other logistics, to support monitoring activities. This is especially critical when it was observed that one of the main challenges of effective loan monitoring was under staffing and lack of vehicles, motor bikes and other logistics.

Furthermore, MFIs need to build their staff technical and skill development capacity through regular systematic training and on the job training to help staff build the necessary skills and the capacity to design, implement (through training of beneficiaries), monitor and evaluate microfinance projects. Also, supervisory personnel should help their staff to clearly understand their specific duties and responsibilities to ensure proper work flow and processing of transactions and events and to reduce misunderstandings and discourage wrongful acts.

Increased competition among the MFIs is creating the enabling environment for low-income customers to get better educated on interest rates and fees in micro finance transaction. Historically, the high rates on micro loans have often been disguised through flat interest rates and non-transparent fees. High administrative and running costs were some of the reasons cited for the apparent high transaction costs. It is therefore recommended that MFIs must devise various institutional mechanism aimed at reducing high cost of transactions. One way is to take advantage of the economies of scale in group-based lending and peer-monitoring systems to reduce cost and charge lower rates relative to conventional lenders. It is also recommended that MFIs operating in the metropolis should provide clients with appropriate, simple and clear interest rates and fee structures. This will ensure transparency of interest rates and other charges by MFIs and promote a healthy competition among the MFIs.

Finally, the regulation of MFIs could be done better with the involvement of MFIs apex bodies, but the laws are silent on the exact roles that apex bodies are to play. In order for apex institutions to be successful in providing some supervisory roles, it requires backing of the law to enable it enforce compliance, and it needs to draw its mandate from the regulator. When this is not resolved it could create tension between the MFI apex and the Bank of Ghana. It is recommended that all MFIs should push for a legal backbone through the Central Bank which will govern their activities and operations. It is also worth to note that a comprehensive national microfinance policy is necessary to support microfinance regulation.

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# APPENDIX A

## UNIVERSITY FOR DEVELOPMENT STUDIES

## COMPARATIVE ANALYSIS OF THE OPERATIONAL STRATEGIES AND CHALLENGES OF THE NGO MFI AND RURAL BANK MFI IN SELECTED DISTRICTS OF NORTHERN REGION, GHANA.

SECTION 1: SOCIO-DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS.

1. Name of District……………………………………………………………………

2. Age

   1= 22-30    2= 31-40    3= 41-50    4= 51-60

3. Sex

   1= Male    2= Female

4. Marital Status

   1=Married    2=Single    3= Divorced    4= Separated    5= Widowed

5. Educational Status

   1=No Formal Education    2=Primary    3= JHS/Middle    4 SHS/Technical    5= Tertiary

6. Religion

   1= Christian    2= Muslim    3=Traditionalist

7. What is your main occupation?

   1= Farmer    2=Trader    3=Processors    4=Civil Servant

8. Which type of account do you operate?

   1=Savings Account    2=Current Account

SECTION 2: OPERATIONAL STRATEGIES OF RURAL BANKS AND NGOS MICROFINANCE SYSTEM

9. What procedures did you follow before accessing the Loan?

| Procedure for Access | Yes | No |
|---|---|---|
| Form a Group | | |
| Application Letter | | |
| Send ID Cards and Passport Pictures | | |
| Buy Membership Cards | | |
| Attend Meeting | | |
| Open savings Accounts | | |
| Loan Officer is Assigned | | |
| Save for some time | | |
| Must have a Business | | |

10. Please provide the following information about loan collected

| Loan Size (GHc) | Loan Term/ duration (Months) | Repayment Term |
|---|---|---|
| | | |

11. Did you use the loan for other purposes than for business?

    1=Yes 2= No

12. Did you face any challenges in the repayment of your loan?

    1=Yes 2= No

13. What are the reasons for the challenges you faced in repaying the loan?

    1= Poor market/ sales 2= Diversion of Loan 3= Short repayment interval

    4= Others

14. Did you receive any training from the financial institution?

    1=Yes 2No

15. In what areas were you trained?

| Training Received | Record keeping | Business management | Savings | All the above | Others |
|---|---|---|---|---|---|
| Yes | | | | | |
| No | | | | | |

SECTION 3: OPERATIONAL STRATEGIES AND PERFORMANCE OF MICROFINANCE INSTITUTIONS.

16. Are you satisfied with procedure for accessing loan?

1=Yes 2=No

17. What is your opinion about the Interest rate?

1= Small 2= Moderate 3= High

18. What is your preferred term of repayment?

1= Weekly 2= Monthly 3= Quarterly 4= Yearly

SECTION 4: CONTRAINTS TO THE OPERATIONAL STRATEGIES OF MICROFINANCE INSTITUTIONS

19. What constraints did you face in dealing with the microfinance institutions?

1= Yes 2= No

| Constraints | Late disbursement | Solidarity group lending requirement | High Interest rate | Compulsory deposits and fees | Others |
|---|---|---|---|---|---|
| Yes | | | | | |
| No | | | | | |

# APPENDIX B

## UNIVERSITY FOR DEVELOPMENT STUDIES

## COMPARATIVE ANALYSIS OF THE OPERATIONAL STRATEGIES AND CHALLENGES OF THE NGO MFI AND RURAL BANK MFI IN SELECTED DISTRICTS OF NORTHERN REGION, GHANA.

SECTION 1: BIODATA OF INSTITUTION

1. Name of institution ……………………………………………………………
2. District of operation ……………………………………………………………

SECTION 2: OPERATIONAL STRATEGIES OF RURAL BANK MFI AND NGO MFI

3. Please provide the following information about your loan Services.

| | |
|---|---|
| Loan size range(GHc) | |
| Interest rate (%)on Loans | |
| Loan term /duration (months) | |
| Repayment term | |
| Processing fees (%) | |

| | |
|---|---|
| Compulsory deposit (%) | |
| Interest rate (%) on deposit | |
| Lending methodology | |
| Target group | |
| Additional services provided | |

4. What are your loan recovery strategies?

| Loan recovery strategies | Yes | No |
|---|---|---|
| Peer monitoring systems<br>I. Solidarity group peer pressure model<br>II. Village banking social Pressure model | | |
| Late payment sanctions | | |

| | | |
|---|---|---|
| Enforcement by police or court | | |
| Others | | |

SECTION 3: CONTRAINTS TO THE OPERATIONAL STRATEGIES OF RB AND NGO MFIs

5. Please rank the following constraints facing the MFIs from 1 to 8 in terms of severity. Where 1= Least severe and 8= highest severity

| Constraints | Ranking |
|---|---|
| Low educational level of clients | |
| Diversion of loans | |
| Payment default risk | |
| Poor credit appraisal | |
| Poor regulatory environment | |
| Inadequate monitoring | |
| High transaction cost | |
| Inadequate training/ Skill development | |

6. Any other constraint? Please indicate

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Thank you